EXHIBIT A

<u>Exhibit A Documents</u>

David Welch, *Go Bankrupt, Then Go Overseas*, Business Week, Apr. 24, 2006

Micheline Maynard, *Delphi Chief Fights Battle of Detroit,* N.Y. Times, Nov. 23, 2005

Monica Langley and Jeffrey McCracken, *Showdown on Auto-Labor Costs Looms as Delphi Goes to Court*, Wall St. J., Mar. 31, 2006

Harley Shaiken and David Bonior, *Is Globalization Destroying Consumer Market*, The Sacramento Bee, Oct. 23, 2005

Press Release, General Motors Corp., GM Statement on Delphi Court Motions (Mar. 31, 2006)

Jeffrey McCracken, *A Middle Class Made by Detroit is Now Threatened by its Slump*, Wall St. J., Nov. 14, 2005

David Welch, *Time and Patience Run Out at Delphi*, Business Week, Oct. 8, 2005

Press Release, Delphi Corp., Delphi Intensifies Action to Improve Competitiveness (Oct. 16, 2003)

Press Release, Delphi Corp., Delphi and UAW Finalize New Hire Wage and Benefit Supplement (Apr. 29, 2004)

Press Release, Delphi Corp., Delphi, UAW and GM Agree on Hourly Special Attrition Plan (Mar. 22, 2006)

Jeffrey McCracken and Lee Hawkins, Jr., *GM Makes Sweeping Buyout Offer*, Wall St. J., Mar. 23, 2006

Press Release, UAW, UAW Statement on Delphi Filing 1113/1114 Motions (Mar. 31, 2006)

Jeffrey McCracken, *Delphi Delays Effort to Cancel Union Contracts*, Wall St. J., Feb. 18, 2006

David Welsh and Dan Beucke, *Why GM's Plan Won't Work*, Business Week, May 9, 2005

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APRIL 24, 2006

WORKPLACE

Go Bankrupt, Then Go Overseas

For Delphi, Chapter 11 is a globalization gambit. If it works, rivals may copy it

Delphi Corp.'s (DPHIQ) battle with the United Auto Workers has all the earmarks of a conventional labor showdown. CEO Robert S. "Steve" Miller Jr. has demanded up to 40% pay cuts, which he says are necessary to lift the world's largest auto parts maker out of bankruptcy and make it globally competitive. The UAW has agreed in principle that concessions are inevitable but is adamantly resisting the scope of changes Miller wants.

But what's different in this battle is that Miller wants to use the bankruptcy courts to drastically slash Delphi's U.S. presence, thus freeing it up to focus on its already vast overseas production. Miller filed for Chapter 11 protection only for his U.S. operations, which employ 32,000 UAW and other union workers. He was careful to exclude Delphi's 115,000-worker foreign factories, many of which operate in low-wage countries such as Mexico and China. If Miller gets his way, court filings show, Delphi will end up with a U.S. workforce of perhaps 7,000, leaving the bulk of its production abroad. "The company will only keep U.S. operations that have technological value," says Brian Johnson, an auto analyst at Sanford C. Bernstein & Co. Miller declined comment.

Miller's is an unorthodox approach that paves a new road for U.S. employers striving to compete in a globalizing economy. After all, U.S. bankruptcy laws were written before globalization and intended to give companies a chance to reorganize and start over – not flee overseas, says Sean McAlinden, chief economist with the Center for Automotive Research. He says other auto parts companies, a handful of which already are in bankruptcy, are likely to follow suit if Miller's strategy succeeds. That means the $170 billion annual auto parts business could shift overseas even faster, jeopardizing more of the industry's 695,000 jobs.

DRASTIC DOWNSIZING

Critics are trying to throw up all the roadblocks they can. On Apr. 6, two UAW allies, Senator Evan Bayh (D-Ind.) and Representative John Conyers Jr. (D-Mich.), introduced legislation in Congress to tighten up the bankruptcy laws in response to Delphi's moves. The bills would require the courts to factor in a bankrupt company's overseas operations when determining whether it can abrogate union contracts and retiree health-care plans in the U.S. "Some international corporations that are struggling domestically use their losses at home to justify breaking contracts with American workers while their overall company is still thriving," the two lawmakers proclaimed in their joint announcement of the legislation.

Miller doesn't talk much publicly about his goals for fear of further inflaming an already outraged UAW, but the gist of Delphi's plan is apparent in its bankruptcy filings. Right now the company produces about two-thirds of its $28 billion in annual revenue in the U.S. This includes everything from high-tech engine controls and satellite radios to low-tech commodities such as air filters and brake parts. Its reorganization plan would ditch everything in the U.S. except safety technology, radios, information and entertainment systems, electronics, wiring, and engine controls. That would leave Delphi with U.S. revenues as low as $5 billion.

To pull off a downsizing of that scale, Delphi would close or sell 21 of 29 plants it has identified as noncore businesses, according to the filings. An additional 12 plants are not named in the reorganization plan, but a

company spokesman says some of those will go, too. It's not just $27-an-hour union wage scales at issue. Even if the UAW agrees to slash pay to $22 per hour this year and to $16.50 per hour next year, as Miller has demanded, many of Delphi's plants are inefficient and would take huge investments to bring up to world-class standards. Bottom line: Delphi's plan would slice away 27,000 U.S. union jobs by 2010.

Many of these cuts will come with aid from former parent General Motors Corp. (GM). It's on the hook because it buys about $14 billion in parts a year from the company it spun off in 1999. If the UAW were to strike over Miller's demands, GM would be shut down in a couple of weeks, GM CEO G. Richard Wagoner Jr. tells *BusinessWeek*. That's why Wagoner agreed in March to take back 5,000 UAW workers from Delphi and offer early retirement buyouts to 13,000 more. It's also why he is still at the bargaining table, trying to grease a deal that will help Delphi cut costs while keeping its union workers off the picket line.

Indeed, Wagoner may end by subsidizing the wages of whatever jobs Delphi keeps in the U.S. UAW leaders say GM may pay as much as $10 an hour on top of the $12 Miller is offering his UAW members. Wagoner insists he won't take over any Delphi plants. But McAlinden thinks GM could wind up paying some of Delphi's wages, at least temporarily.

That may not be quite as crazy as it sounds. Consider that GM is currently subsidizing Delphi by paying $2 billion above market for the parts it buys from its former division, says Wagoner. If GM wage subsidies persuade the UAW to go along with Miller's plan to shutter more of its U.S. plants that supply GM, that would free up the auto maker to find cheaper suppliers. "We can work it out," Wagoner says. "The benefit to GM is that we can get parts at market-based prices."

For Miller, the preferred outcome is clear: exit high-cost U.S. operations in which Delphi is not competitive. McAlinden figures other suppliers -- even healthy ones -- will take similar steps. "You don't think that companies like Lear (LEA) and Johnson Controls (JCI) won't want to find a way to go overseas?" asks McAlinden. "You bet they will."

By David Welch

BUSINESS/FINANCIAL DESK

Delphi Chief Fights Battle Of Detroit

By MICHELINE MAYNARD (NYT) 1279 words
Published: November 23, 2005

DETROIT, Nov. 22 - Robert S. Miller started off as the Oracle of Delphi, handing down dire pronouncements about the auto industry from his lofty post as chief executive of the parts supplier.

But with the Delphi Corporation in bankruptcy proceedings, Mr. Miller, known as Steve, has come charging down from the mountaintop to confront Delphi's unions in a way that Detroit has rarely seen.

Calling to mind Gen. George S. Patton, or at least the movie version played by George C. Scott, Mr. Miller is embracing his combatant's role, at least for the attention it is bringing to the crisis facing his industry.

"Somebody had to do this," Mr. Miller said in an interview last weekend. "If I have ended up where I am, the one who has to be a leader for change, I'll keep talking."

He is doing plenty of that. Next month, Delphi is expected to ask a federal bankruptcy judge for permission to terminate contracts paying $64 an hour in wages and benefits combined, so that it can impose sharply lower rates.

Otherwise, says Mr. Miller, a veteran turnaround expert who took over Delphi in July, all of Delphi's 34,000 hourly jobs in the United States are at risk.

He is confident -- some might say overconfident -- of victory. A ruling in Delphi's favor is "a slam-dunk, given the financial condition of the company," Mr. Miller said.

Such comments are ruffling feathers in a city where the fashion has been to stress cooperation, even as plants are shut and jobs are cut.

"His demands are so extreme, and he insists on them, time after time after time," said Douglas A. Fraser, a former president of the United Automobile Workers union. "It contradicts the approach that almost every leader of every industry uses."

Indeed, Mr. Miller's tough talk could send workers on a charge themselves -- out to picket lines, crippling production not only at Delphi, the nation's biggest auto parts company, but at General Motors, its biggest customer and the nation's biggest auto company.

If that happens, Delphi has no secret plan to operate with replacement workers, as Northwest Airlines did when members of its mechanics' union walked off in August. Nor does Mr. Miller expect to send production to plants outside the United States, so it can keep supplying G.M.

The reason, he said, is that "I am not expecting a strike, so there is no contingency plan."

In any event, he said, "It does no good to strike Delphi," adding: "Strikes achieve a union's purpose only when there is a wealthy corporate parent. I don't have billions, and I'm in bankruptcy."

Investors are far less persuaded. G.M. shares have been driven to new lows for the year by fears of a strike at Delphi, coupled with speculation that G.M. may join Delphi in Chapter 11 -- a view that its embattled chief executive, Rick Wagoner, strongly disputed last week in a e-mail message to its 325,000 employees.

Even so, a grim Mr. Wagoner broke into a rare smile on Monday when asked if Mr. Miller's candor about the auto industry crisis had helped deflect some of the flak aimed at Mr. Wagoner. A short while before, he had announced plans to close all or part of a dozen plants and eliminate 5,000 more jobs than the 25,000 previously announced.

"The comments that Steve has made about this industry have raised the level of concern," Mr. Wagoner said. Mr. Miller has assured him there will not be a strike, he said, and "we take confidence in Steve's words, to us and the public."

While U.A.W. leaders also play down the likelihood of a walkout, Mr. Miller is raising their ire. Last week, the U.A.W.'s president, Ron Gettelfinger, said Mr. Miller's demand that workers accept $21 an hour in wages and benefits was "ridiculous." Others have even more choice words.

Mr. Miller, interviewed by phone during halftime of Saturday's Michigan-Ohio State football game, said he had received hundreds of e-mail messages from Delphi workers. Many told in aching detail why they and their families could not survive on less, and others told him off.

"The members are infuriated with the guy," said Mr. Fraser, the former U.A.W. president. In the early 1980's, he played a major role in keeping G.M., Ford and Chrysler afloat, agreeing to historic wage cuts, pay freezes and other concessions.

Mr. Miller had better change tactics if he hopes for a similar result, Mr. Fraser said. For one thing, many union members are livid at an executive compensation package with hefty bonuses, which Mr. Miller contends are needed to keep top managers from leaving. The union sees them as an insult when Delphi is insisting that workers give up two-thirds of their pay and benefits.

Mr. Miller expresses sympathy for workers' personal situations. But he said it was time that someone pointed out that they were making much more than their counterparts in other parts plants. Last week, Delphi sent journalists a multicolored chart, drafted from government statistics, depicting the lower wage rates in different parts of the United States.

"There is a certain degree of denial here," Mr. Miller said. He added: "It is very difficult to be the bearer of bad news. But the only way to find the answers is to first understand the problem."

One answer could come through the bankruptcy process. If there is no agreement with unions by Dec. 16 -- and Mr. Gettlelfinger said last week that one was unlikely by then -- Delphi will file a motion in

bankruptcy court to set aside its union contracts.

Arguments on the request would be heard in late January, with a ruling expected sometime in February, barring a deal between the sides. If a judge rules in Delphi's favor, the company can terminate its contracts and impose lower terms.

Mr. Miller said that would not happen automatically, but he also said he did not think unions would let the situation reach that point. Instead, he said he expected the move to spur negotiations and lead to an agreement.

At the moment, however, it can be hard to see how auto, steel, electrical and other workers at Delphi can find any middle ground with Mr. Miller, who said he felt he had been "demonized" because of his drive for cuts.

But the trouble may all be worth it, for analysts theorize Mr. Miller's next challenge could be the ultimate turnaround: G.M.

That seems a long shot for now, given that Mr. Wagoner said Monday that he had no plans to step down, G.M.'s board has repeatedly expressed confidence in him, and Mr. Miller says he is not interested.

"Not me -- I've got a job. I would not want Rick's job right now," Mr. Miller said.

Delphi, he said, had "one single, overarching issue" -- reducing labor costs. Mr. Wagoner, he said, has to tackle G.M.'s overall costs, pension and health care deficits and roll out new cars and trucks to win back lost market share.

"Delphi's problems are more urgent," Mr. Miller said. "G.M.'s are more serious."

Photos: Robert S. Miller, chief of Delphi. (pg. C1); Last month, after Delphi filed for bankruptcy protection, union members joined in a prayer circle outside a Delphi plant in Dayton, Ohio. (Photo by Jan Underwood/The Dayton Daily News, via Associated Press)(pg. C4)

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March 31, 2006

PAGE ONE

Collision Course

Showdown on Auto-Labor Costs Looms as Delphi Goes to Court

Request to Abrogate Contracts Could Lead to Reductions In Pay Scales -- or to Strike

Some 20 Parts Plants May Shut

By MONICA LANGLEY and JEFFREY MCCRACKEN
March 31, 2006; Page A1

DETROIT -- In a meeting here on Thanksgiving eve, Delphi Corp. Chief Executive Officer Steve Miller pressed **General Motors** Corp. CEO Rick Wagoner for financial support to help the nation's largest auto-parts maker stay afloat and cover its labor costs. "A strike is bad for us," Mr. Miller told him, according to someone familiar with the meeting. "But it will kill you."

Now, Mr. Miller is poised to set in motion events that could trigger a strike. Delphi is expected to ask a bankruptcy court today for permission to throw out its union contracts and impose steep cuts in wages and benefits. Its main union, the United Auto Workers, has warned that such a move could lead its 24,000 union members to walk off the job, though that's by no means a certainty. Some 8,000 more Delphi workers belong to another union, the IUE-CWA, and have already authorized their leaders to strike should they choose to.

Robert S. "Steve" Miller

A strike at GM's biggest supplier could shut down auto maker's assembly lines within days, costing it as much as $130 million a day in the first two months, by some analysts' estimates. Delphi supplies about $15 billion in parts to GM and about $13 billion to other customers, including **Toyota Motor** Corp. and **Ford Motor** Co. A prolonged strike would affect them, too, as well as their other parts suppliers -- potentially doing harm to a wide swath of the U.S. manufacturing sector.

Neither a strike nor an abrogation of the contracts will happen right away. The bankruptcy court won't decide until June whether to let Delphi break the contracts. The sides will keep talking, and Delphi says it remains committed to a "consensual resolution" before the judge's ruling.

One way or another, a watershed moment in the history of Detroit labor relations appears near -- one that will bring change to the long and contentious union-labor tradition whose costs the auto makers say are too burdensome. Instead of a strike, Delphi, the UAW and GM may use the ticking clock to reach a far-reaching overhaul of Delphi's labor costs,

setting the stage for radical change in the entire unionized U.S. auto industry. Or, a strike may break out, with dramatic and unpredictable effects. Mr. Miller, a seasoned heavy-manufacturing executive who came to Delphi last summer -- and has a record as a turnaround specialist -- is shaking things up in ways the automotive establishment has not.

In today's filing, Delphi will offer a "transformation" plan that will considerably shrink the company. It's expected to detail its core lines of businesses and facilities. That means roughly 20 plants or facilities will be closed or sold, according to people familiar with the situation. Also, Delphi is expected to cut one-fourth of its salaried positions world-wide -- eliminating some 8,500 jobs.


Richard Wagoner Jr

For GM, the looming Delphi-UAW showdown complicates the already-difficult situation facing the auto maker and its embattled CEO, Mr. Wagoner. Losing market share -- it's below 25% in the U.S. now -- GM is reeling from a $10.6 billion loss last year and faces federal probes over its accounting. When GM spun off its Delphi parts business in 1999, GM hoped to create a self-sufficient supplier that could be robust enough to support its high-cost, unionized U.S. employees until they retired and were replaced by workers earning lower wages. But slumping sales and rising prices for commodities such as steel put the squeeze on Delphi, and now it's one of several big auto-parts makers operating in Chapter 11.

GM has pledged to support Delphi, including financing buyout offers to union workers that were agreed to earlier this month. But supporting Delphi could drain cash that GM badly needs to reinvigorate its product lines.

An inside look at the tumultuous talks shows how difficult it will be for Delphi, GM and UAW -- all in weaker conditions than ever before -- to rise above problems, politics and pressures to reach a landmark labor deal.

Mr. Miller, 64 years old, is used to playing hardball with employees, customers and creditors. The former Chrysler executive has turned around ailing giants from Waste Management to Bethlehem Steel. Delphi brought him in in July when its founding CEO retired.

Arriving at Delphi, Mr. Miller found a company hemorrhaging from high labor and other costs and the weakening of its key customer, GM. His first official, and very public, act was to tell the Detroit power structure that radical change was overdue if the traditional U.S. auto business was to survive. "Our labor contracts are simply unaffordable and must be changed," he told an industry conference at the Greenbrier Hotel in West Virginia on Oct. 7. Auto executives broke out in applause.

At a news briefing, Mr. Miller suggested outsourcing some current union jobs, such as noncore or seasonal work. "Paying $65 an hour for someone mowing the lawn at one of our plants is just not going to cut it in industrial America for long," he said. At a visit to a plant in Lockport, N.Y., soon after, he faced a sea of green T-shirts reading "Miller's Lawn-Care Service: Mowing Down Wages." Some workers turned their backs on him. Later that day, however, some workers at a Grand Rapids, Mich., plant told him they understood the need for change.

In early October he put Delphi into bankruptcy reorganization and asked the bankruptcy court for approval of bonuses for executives if Delphi made a successful turnaround. That further infuriated

the union. The UAW called the request "obscene." The hate email and Internet postings upset his family, Mr. Miller told colleagues.

Ron Gettelfinger

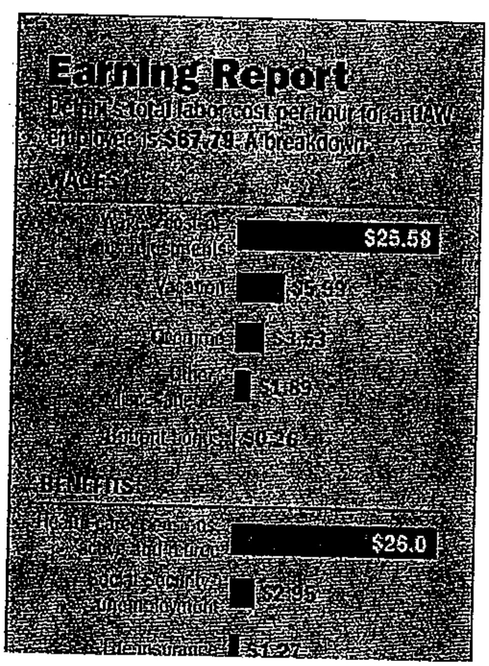
Delphi's first offer to the union was to drastically cut hourly wages, to \$9.50 from \$27. UAW President Ron Gettelfinger phoned Mr. Miller that day. The 61-year-old union official responded that the offer "isn't even worth discussing" and added, "I don't negotiate with a gun to my head," according to a person familiar with the matter.

Even Michigan's governor weighed in. Gov. Jennifer Granholm, a Democrat facing a re-election challenge, huddled with Mr. Miller in a private room at a Hyundai event on Oct. 13 and told him she'd like him to do something about Delphi's executive comp, according to a person familiar with the matter. The next Monday, Mr. Miller said he would cut his salary to \$1 a year from \$1.5 million. When he next showed up at a plant, workers' signs said "Miller isn't worth a buck."

Mr. Gettelfinger, a former Ford chassis repairman, got the impression that the Delphi chief's complaints about labor costs were partly a cry for help from Delphi's former parent GM, says a person familiar with the situation. GM, in spinning off Delphi, had agreed in principle to assume certain future risks and liabilities. But since Mr. Miller came aboard, GM had been sending signals that it wouldn't immediately rescue the parts supplier.

In October, the UAW threatened a strike. That gave Mr. Miller leverage against Mr. Wagoner because of the harm a Delphi strike would cause the auto maker. Mr. Miller successfully pressed Mr. Wagoner to rescind plans to impose cuts in what GM would pay Delphi for certain parts, according to people familiar with the discussions.

For the first time since the spinoff, GM agreed to provide financial support. It signaled it would help Delphi with the costs of any buyouts or early-retirement deals for workers that were negotiated. By doing so, GM stood to gain the cooperation of the union in GM-UAW talks over plans to shrink GM's work force.



Encouraged by GM's new posture, Mr. Miller told Mr. Gettelfinger at a Dec. 15 meeting, "Now's the time to deal," according to a person familiar with the talks. To show goodwill, he said he would "eat crow" by withdrawing the \$9.50-an-hour wage offer that so angered the union, this person said.

As the sides made bits of progress behind the scenes, the UAW chief wouldn't even acknowledge talking to Mr. Miller. He told reporters at a media briefing he had "no relationship, no trust" with Delphi's leader.

Talks picked up speed early this year when GM named a new chief financial officer, Frederick "Fritz" Henderson. Mr. Miller also started to change his tune. At an industry gathering in January, he said Delphi's problems weren't the workers' fault. "We need a soft landing," he said.

That became all of the parties' mantra -- to decrease the harshness of the new reality by letting workers leave with some sort of buyout. Three-way talks focused on such a deal. But Delphi had set a Feb. 17 deadline for its court filing to void its labor contracts. On Feb. 13, Mr. Miller met Messrs. Gettelfinger and UAW Vice President Dick Shoemaker at UAW headquarters. "What can you say to me to convince my board and creditors' committee to delay our motion?" he asked, according to a person familiar with the meeting.

The union officials told him that going to court at that point would damage the goal of reaching an accord. So Delphi announced that it would delay until March 31 -- when, if a labor-cost agreement wasn't in place, it would seek bankruptcy-court authority to get out of its labor contracts.

This month, GM announced a sweeping plan to offer buyouts of from $35,000 to $140,000 to 131,000 UAW-represented GM and Delphi workers. GM will pay for the buyouts, and also agreed to take back 5,000 former GM workers who went with Delphi when it was spun off seven years ago.

Delphi, expected to run out of cash in the third quarter, is looking to GM for more help. GM has said that its liability for former GM workers employed at Delphi could eventually cost the car company $5.5 billion to $12 billion in all.

GM's own troubles make it difficult to fork over cash. GM is searching for other ways to assist, such as by helping Delphi sell unprofitable lines of business, according to Delphi and GM officials. For example, GM could provide a potential buyer with a guarantee of a certain volume of business, helping Delphi get a better price for units. One business Delphi is likely to exit from is making spark plugs. It costs Delphi $2.05 to make a plug, versus $1.05 in China. Delphi sells plugs at a loss to GM for $1.70.

Delphi notified the unions last weekend that its filing with the bankruptcy court today will call for a pay cut of $5 an hour, to $22 an hour, with a cut to $16 an hour in 2007. Each Delphi worker who stays for the last pay cut would get a $50,000 one-time payment. The union is trashing the offer as inadequate.

Delphi's final offer called for the layoff of all workers in the "Jobs Bank," a UAW program in which workers get full pay and benefits even if there isn't any work for them. Delphi also proposed freezing the employees' pension plan this October, eliminating retiree health-care benefits as of July 1, and then next year outsourcing all nonproduction work, such as janitorial, truck repair and building maintenance.

On Wednesday, Mr. Miller told his board he views the request to break labor contracts as an "insurance policy that we need to have but hope we won't have to use," say people familiar with the situation. If the union won't go far enough in wage-and-benefit concessions and GM won't make up the difference for Delphi, Mr. Miller wants the authority to take unilateral action.

In today's court documents, Delphi is expected to identify plants it will close. They're expected to include Milwaukee and Wichita Falls, Texas. But Lockport, N.Y., where workers snubbed Mr. Miller with the lawnmower T-shirts, is expected to survive. Delphi concluded that its thermal business has good global prospects in the future, said someone familiar with the matter.

The UAW this week told local union officials a decision on whether to hold votes on authorizing a

strike won't come right away. That will give GM and Delphi some breathing room to negotiate. But even if all three sides agree in coming weeks, the union will have an uphill battle to get an accord ratified by its members, many of whom are already unhappy with health-care and other concessions made in the past year. "A strike may be the cathartic act the union needs" to get ratification, one official said.

UAW activists have been blasting union leadership for making concessions through the years and not taking a strike vote at Delphi. Mr. Gettelfinger, his lieutenants and many plant-level union presidents have been trying to assure members that negotiation was the best way to save jobs. His ability to keep a strike from happening and get the membership to agree to concessions has been a chief concern of GM and Delphi negotiators throughout the talks. Already, some plant workers are chatting among themselves about unauthorized strikes or work slowdowns.

GM shares fell about 4.9% yesterday to $21.06 as the Delphi move neared and investors awaited word from GM on the status of its plans to sell a stake in its GMAC lending arm. Delphi's stock finished down two cents at 55 cents a share.

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Is globalization destroying consumer market?

October 23, 2005
Section: FORUM
Page: E1

By Harley Shaiken and David Bonior

Special To The Bee

--Lori Wenzel lives in a nice house in a nice subdivision in Grand Blanc, Mich. She's worked hard to get there. She hired into an auto parts plant, now Delphi East, in 1977 when she was 18 years old, some 28 years ago.

Now the Delphi bankruptcy, the largest industrial meltdown in U.S. history, threatens to shatter her world and the world of her coworkers.

Delphi's skid into an economic ditch raises a fundamental question: How do U.S. firms compete in an increasingly rough-and-tumble global economy? Historically, U.S. firms have succeeded through innovation and high productivity, not low wages. Indeed, not long after Henry Ford introduced the moving assembly line for the Model T in 1913, he doubled the wage of his workers to $5 a day. Despite predictions of ruin by editorial writers and Ford's competitors, and buoyed by unprecedented efficiency, sales soared and the profits of the Ford Motor Co. jumped almost 20 percent the following year.

By the late 1940s, unions spread economy-wide Ford's idea that highly productive workers should also earn higher wages. The result was strong consumer demand, an expanding middle class and a growing economy. In short, we all benefited.

Delphi, General Motors' former parts subsidiary, won't be expanding the middle class anytime soon. The company has proposed eliminating one-third or more of

its 33,000 hourly workers in the United States and slicing wages for those who remain from $27 to $10 an hour. Benefits will become an endangered species. People like Lori would go overnight from among the highest paid industrial workers in the world to scraping by near the poverty line.

In Saginaw, Mich., Delphi's proposed new pay trails Burger King's $10.60 hourly wage, turning fast food into a promotional opportunity for autoworkers.

What forces are propelling this seismic shift? A new reality underlies the global economy: Companies have found they can achieve first-world productivity and pay third-world wages in emerging economies. Delphi plants in the United States are pitted against those in Mexico and China, where labor costs are 5 percent or so of U.S. levels.

The company's 60,000 Mexican workers - one-third of its global employment - are currently working heavy overtime for which they earn between $70 and $90 a week.

Some analysts are saying the Mexican workers may be pricing themselves out of the global market - auto parts workers in China earn that in a month.

As Delphi and the United Auto Workers resume negotiations, all sides agree that a painful restructuring is necessary. There is, however, a major difference between restructuring and a unilateral demolition of what Lori Wenzel and other workers have achieved over the last 70 years.

The lowest cost producer is not necessarily the lowest wage producer. Delphi needs innovation and efficiency to compete, qualities for which its seasoned workforce is vital. They won't exactly be singing the company song after these changes, nor will the best and brightest be flocking to Delphi's plants.

Beyond the bargaining table, manufacturing firms need policies that recognize the new realities out there. Instead, the Bush administration has been myopic. As a result, companies such as Delphi are caught in a tightening vise of soaring health care costs on the one hand and an outmoded trade policy on the other.

The United States remains the only major industrial country in the world without national health insurance, putting an unreasonable burden on firms and workers. At GM, $1,500 of each vehicle's cost goes to cover health care for the company's workers. As the world's largest private provider of health care benefits, GM and its workers are now in the midst of a painful adjustment.

"It does not take a union activist to be disturbed by the prospect of Delphi workers losing benefits that they dedicated their lives to gaining by working there," the Financial Times commented. In contrast, auto parts makers in Japan and Europe are successful, even paying high wages without the added burdens of health care costs.

Likewise, U.S. trade policy is askew. The issue isn't pulling back from the global economy but rather creating incentives to compete through innovation rather than through wage slashing. Trade agreements that incorporate core labor rights ensure that workers can bargain for a fair share of what they produce. If workers in Beijing can form an independent union - if they choose - they can earn more and workers in Saginaw or Sacramento can avoid earning less. The

combination increases demand for new products in both countries and lays the basis for expanded trade.

Pulverizing the wages and benefits of Delphi workers may make the company more profitable in the near term. But Wall Street as well as Main Street will be hurt in the long run because Lori, her coworkers and their counterparts across the globe can't afford to buy new Buicks. As Henry Ford understood nearly a century ago, if competition destroys the very consumer market on which manufacturers depend, business as well as workers and communities will lose.

Harley Shaiken is a professor at the University of California, Berkeley specializing on labor and the global economy. David Bonior is university professor of labor studies at Wayne State University in Detroit.

News

FOR RELEASE: 2006-03-31

GM Statement On Delphi Court Motions

DETROIT - General Motors Corp. (NYSE: GM) today said it is disappointed with Delphi Corp.'s (DPHIQ) decision to seek authority to reject certain supply contracts with GM but it remains committed to working with Delphi and its unions to reach a consensual agreement.

"We disagree with Delphi's approach but we anticipated that this step might be taken," said Rick Wagoner, GM chairman and chief executive officer. "GM expects Delphi to honor its public commitments to avoid any disruption to GM operations."

Delphi's motion for authority to reject certain GM supply contracts, as well as the company's motion to reject its labor contracts, is consistent with past practices of other suppliers in Chapter 11.

"Motions to reject labor agreements are fairly common in reorganization proceedings and we have seen this approach play out to agreed resolutions in other cases," Wagoner said. "GM will continue to work with Delphi, its unions and the court to achieve a consensual agreement that makes sense and is financially viable for all of the parties. We believe the special attrition program we agreed to with the UAW and Delphi last week is indicative of GM's commitment to reaching such an agreement."

GM's objective in the Delphi reorganization remains to ensure that Delphi can continue as a viable important supplier to GM on terms that make sense for both GM and its stockholders.

THE WALL STREET JOURNAL. ONLINE

November 14, 2005

PAGE ONE

Shifting Down

A Middle Class Made by Detroit Is Now Threatened by Its Slump

Henry Ford's Gold-Plated Pay Belongs to an Older Era; Realities of Globalization

The Brown Family Takes Stock

DOWNHILL

• Demands for Labor Givebacks Grow More Aggressive[2]

By JEFFREY MCCRACKEN
Staff Reporter of THE WALL STREET JOURNAL
November 14, 2005

(See Corrections & Amplifications item below.)

COOPERSVILLE, Mich. -- Chris Brown needs to have a talk with three of his kids before the end of the year. He plans to tell them he probably won't be able to help pay for college anymore.

Chris Brown

Mr. Brown, 47 years old, earns $26.09 an hour working the midnight shift at Delphi Corp.'s plant here, assembling fuel-injector parts. His pay, combined with generous health benefits, afforded his family a comfortable, middle-class lifestyle with enough left over for extras. But the troubled auto-parts maker -- which filed for bankruptcy protection last month -- is restructuring and Delphi's U.S. factory workers will likely see their total wage package cut in half or more.

Mr. Brown doesn't have to look far to see what his future holds. His younger sister, Penny Austin, had a similar conversation with her children in late 2003 when her employer, auto-seat maker **Lear** Corp. slashed her pay to $18.64 an hour from $26.40. It also cut her benefits. "Christmas won't be the same anymore," she recalls telling her two kids. Mrs. Austin, 35, the family's biggest breadwinner, recently learned that Lear plans to close her plant. Another Lear facility nearby may be hiring -- at $12 an hour.

For earlier generations of auto workers, these jobs were more stable, better paying and came with gold-plated benefits. One beneficiary is the siblings' father, Adrian Brown, 72, who retired from **General Motors** Corp. after a 32-year career there. Under a recent deal between GM and the United Auto Workers union, he'll have to pay premiums on his health care for the first time.

"I don't want to complain because I will still be able to afford my house," says Chris Brown, sitting in his living room across from his sister. "I know, I know, we are blessed," she interrupts,

as tears roll down her cheeks. "But it has felt like a slow death between the pay cut and now this with the plant." As she talks, tears well up in Mr. Brown's eyes, too.

The Brown and Austin families are among hundreds of thousands of people in the industrial Midwest who until recently were largely shielded from the whirlwind competition spawned by globalization. As blue-collar workers in textiles, chemicals and steel saw their paychecks shrink and jobs head overseas, auto workers and retirees were still setting a standard for the American middle class. They earned enough for a good home in Ohio, Indiana or Michigan, along with a couple of cars and maybe a boat or a Florida vacation.

Adrian Brown

But since 2001, Detroit's Big Three have been scrambling to keep up with Asian and European rivals. Over the past two years, new competition and higher gas prices have hammered sales of Detroit's most profitable vehicles. Auto giants started demanding that suppliers match prices offered by producers in lower-wage countries, or as Detroit dubbed it, "the China price." The downward price spiral has left several auto suppliers in bankruptcy and spurred painful changes at car makers.

The result: a collapse of the grand bargain between employees and employers that dates back to Henry Ford's promise of a $5 workday, paid vacations and generous health care and pensions. Back then, the auto industry helped elevate plant workers into the American middle class. Now, as it cuts wages and benefits -- not to mention jobs -- a sizable chunk of America's Midwest is being forced to step down a rung or two on the socio-economic ladder.

"The fact is, globalization, technological change, low-cost competition and deregulation mean there is no safe haven anymore, not even for the auto industry," says Robert Reich, an economist and former Clinton administration labor secretary.

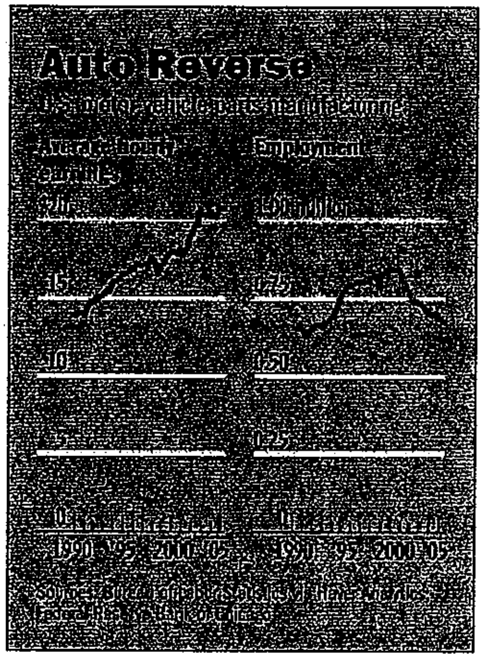
Mr. Reich loosely defines middle-class households as those with an income of $35,000 to $75,000. He says auto-plant workers, despite being promised increasing wages and security in retirement by their employers and their unions, will increasingly fall into the working-class range of $15,000 to $35,000.

The U.S. auto industry, which employs about one million people, won a reprieve from global competition in the 1990s thanks to the surge in demand for sport-utility vehicles and pickup trucks. Most of those vehicles were built by GM, **Ford Motor** Co. and **DaimlerChrysler** AG with parts made by their U.S. suppliers. The SUV boom pumped billions into their bank accounts and helped paper over the industry's long-term structural problems, notably the high cost of labor and long-term health-care liabilities.

In those days, when auto makers tried to press the UAW for concessions, the union refused. In 1998, a cost-cutting effort by GM prompted a costly, three-month strike. After that, auto makers and the UAW generally opted to keep factories rolling rather than fight over issues that didn't seem pressing.

But now, after the collapse in sales and sudden exposure to competition from overseas, high-wage manufacturers such as Delphi have ripped up their labor agreements. About 25,000 UAW workers at Delphi once earned the equivalent of about $65 an hour in wages and benefits. Delphi now wants its hourly workers -- 34,000 in total -- to accept pay and benefits packages totaling between

$20 and $25 an hour. Delphi wants wages to fall from about $26 an hour to about $9 an hour.



On Dec. 16, if it hasn't reached a deal with its unions, Delphi can ask the court hearing its bankruptcy petition to void its existing labor deals. A judge can impose new contracts more favorable to Delphi in late January. Beyond the wage cuts, Delphi could eliminate about 30% of its union jobs. As a result, the UAW has made early concessions over benefits at other companies to try and avoid a repeat of this drastic scenario.

Under Pressure

The bankruptcies of Delphi and plastics-and-fabrics supplier Collins & Aikman Corp., which employs 23,000 people world-wide, could cascade through the sector. If Delphi and Collins slash wages and move plants offshore, rival auto-parts suppliers could feel pressure to follow suit. **Visteon** Corp, which employs 18,000 workers, was recently bailed out by Ford and its future is uncertain. The airline industry recently experienced a similar dynamic.

This is one reason why investors such as billionaire Wilbur Ross are zeroing in on the auto-parts industry. But even Mr. Ross, who made billions during the steel industry's restructuring, says the implications for workers trouble him.

"Historically, these jobs had been some of the premier industrial jobs in the country," he says. "I really do worry and hope some semblance of the American standard of living can be saved for these folks."

Trouble in the U.S. auto industry is leaving thousands of workers, especially in the Midwest, either without jobs, or with jobs that pay less than they did in the 1990s. The number of people working for auto-parts companies has fallen 20% to about 669,000 today, compared with 840,000 in 2000.

The region hit the hardest, say economists, is the 450-mile radius around Detroit, where plants were built to be a day's drive from Motor City. Michigan alone has lost 71,000 of its auto-parts jobs since 2000, out of a total of 226,000, according to the Federal Reserve Bank of Chicago. Also hit hard are Ohio, Indiana, Illinois and the Canadian province of Ontario, just across the border.

Auto-parts pay has stagnated the past three years at about $20 an hour, a flattening not seen in other manufacturing sectors during the same period, according to the Bureau of Labor Statistics. Accounting for increased gas and health-care costs and falling retirement benefits, total compensation for these workers has probably fallen.

A Role in Politics

The job losses in Michigan and Ohio could play a role in national politics. The combined 37 electoral votes in those two swing states were up for grabs until the final days of the 2004 presidential election. Michigan has been reliably Democrat in presidential elections, but gave Sen. John Kerry only a narrow 51% to 48% victory in 2004.

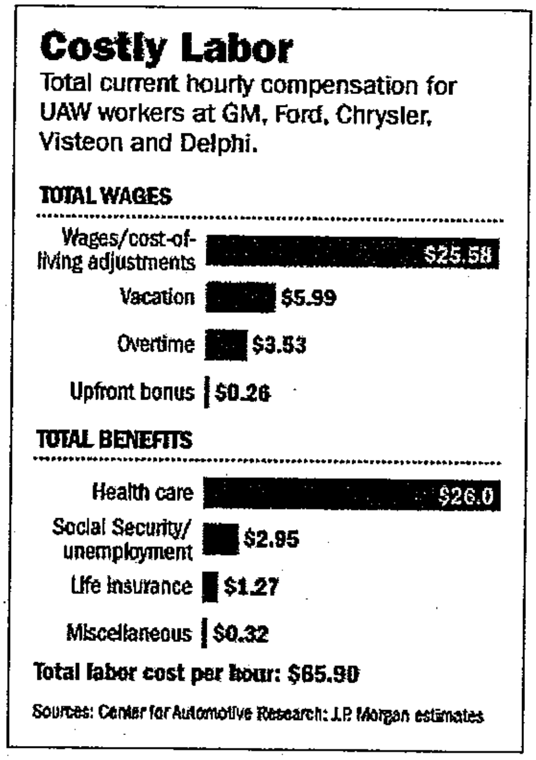
Michigan's Democratic Gov. Jennifer Granholm is stuck with the nation's fifth-highest unemployment rates, 6.4%, and is up for re-election in 2006. She's supporting legislation that would give interest-free loans to any student who studies in fields such as engineering and stays in Michigan after graduation.

Chris Brown never intended to be an auto-parts worker. He went to school to become a teacher or to work in government. He got a bachelor's degree in political science and economics from Calvin College, a Christian liberal arts college based in Grand Rapids.

"I thought I'd work in Lansing or Washington, D.C., but I downsized my dreams when I had the kids," says Mr. Brown, who sat on his local city council for 14 years and has served as an elected UAW official. He's back in school now, earning a master's degree in public administration. He's paying for the education himself and isn't planning to cut back.

When Mr. Brown graduated in 1981, the only job he could find was in a cafeteria making $10 an hour, the same wage Delphi is now proposing he accept. In 1984, a job opened up at the Coopersville fuel-injector parts plant then owned by GM, paying $15 an hour plus full benefits.

Mr. Brown's father, a longtime GM worker, said he could get his son the job. Mr. Brown's second child had just been born two months premature. "The whole reason I took this job was for the health-care benefits and what it could do for my family. We had a hospital bill of $35,000 that had to get paid," says Mr. Brown. He was a GM employee until 1999 when the auto maker spun off Delphi.



His plant, which employs 570 hourly workers, is located on a tree-lined street with fruit stands, several churches and small, brick homes. Mr. Brown lives less than a mile from the plant. Coopersville is about three hours from Detroit, in a Republican-dominated part of Michigan.

The job as a machine operator let Mr. Brown transform his family's lifestyle. Their two-bedroom, 900-square-foot, aluminum-sided bungalow is now a four-bedroom, 2,000-square-foot home. The wood-floored living room and dining room is filled with plants, small pumpkins and a wooden cuckoo clock that sings every half hour. A sign out front says "Busy Mom Sewing," alerting the world to Mr. Brown's wife, Kathy, a full-time seamstress. They have three automobiles: a 1989 Dodge Caravan minivan, a 1992 Dodge Ram pickup truck and a 1996 Dodge Intrepid. All have 150,000 miles or more on the odometer.

The family took infrequent vacations, preferring to use their extra money on functions with the local Catholic church. They did take one extended vacation this August, a two-week trip to Ireland to show Mr. Brown's parents "where they are from."

At the end of this year, Mr. Brown says he plans to sit down with one daughter and two sons and

tell them he can no longer help pay for tuition or books. He's also planning to tell them not to quit school. One son has just graduated. His daughter is studying to be a veterinarian and another son is studying computer engineering. The fourth child is starting community college, but hasn't decided what field to pursue.

Mr. Brown says he hasn't been sleeping well lately. Like many Delphi workers, he questions why his wages, and not management, are blamed for Delphi's problems. "I've been well-compensated, but I don't feel I should apologize for it," he says. "I'm not an unskilled laborer, nor are my co-workers. The company knew they had these legacy costs, why didn't they set aside the money for it?"

Delphi's new chairman and chief executive, Robert "Steve" Miller, says the company made a "good-faith effort to outrun a labor-cost issue that has become unsustainable. We no longer have the cash resources to pay premium labor costs...We have to face reality."

Mr. Miller acknowledges the difficulties Delphi's work force faces but says workers have to make sacrifices just like others with stakes in the company, such as its bondholders. The notions of industrial workers being taken care of for life no longer works, he says.

"Delphi is a flashpoint, a test case, for all the economic trends and social trends that are on a collision course in our country and around the globe," Mr. Miller says.

A former labor negotiator for Chrysler Corp., he has been through this process before. As head of Bethlehem Steel in 2002 during the steelmaker's Chapter 11 restructuring, Mr. Miller streamlined the company's operations. He also terminated its $3.7 billion pension plan before selling the business to financier Mr. Ross.

Mrs. Austin has spent the past 22 months going through the cost-of-living crunch her brother is about to face. The first thing she noticed was how much faster bills piled up. She also had to quit giving her kids Megan, 16, and Tyler, 14, a "20-dollar-bill so they could go to a high-school football game or whatever." Her husband, Jeffrey, 41, has a job in car repossession, but it doesn't pay as much as her job with Lear once did.

The family stopped going out to dinner and Penny gave up collecting candles and dishes. She's also looking to get rid of one of her family's four cars. In 2002, before her wages were cut, Mrs. Austin and her husband bought their first new automobile, a Lincoln Town car.

"What's hardest is I liked being able to spoil my kids or spoil my [nieces and nephews], to buy them things. That was part of my self-worth I guess. I liked buying things for other people and now I can't," she says, wiping away some tears.

Because of crying episodes like this one, Mrs. Austin says she rarely talks about losing her job. She did bring it up to her kids recently, a story which makes her laugh because her son "got all happy when I told him. He was excited mom would be home more and I could take him to school in the morning."

Her Lear plant, located in Grand Rapids, a few miles from Coopersville, used to employ 3,000 people, notes Danny Rau who owns the nearby Danny's Beverage, a liquor store. He recently laid off two assistants. "We don't get all the guys in here at lunch buying lottery tickets and cigarettes anymore," says Mr. Rau.

The plant's nearly empty parking lot is becoming overrun with weeds that crack the cement. The yellow rails that run around the border are chipped. The plant officially closed last week and Mrs. Austin and some other workers will stay through the end of the year helping close the place down. They'll also receive a $50,000 buyout, money Mrs. Austin says she'll use for rent and some utility bills.

Mrs. Austin and her family live in a 3,600-square-foot house on a nearby farm owned by her mother and father, Judie and Adrian. Judie says she depends on rent paid by her daughter's family to pay some bills. The older couple raised eight kids on Adrian's three decades working for GM and now have 27 grandchildren. He retired in 1998.

In preparation for the coming changes, Penny's teenage son Tyler is planning to pitch in. He's going to grow soybeans and winter wheat on 15 acres of the family's farmland.

Write to Jeffrey McCracken at jeff.mccracken@wsj.com

Corrections & Amplifications:

Health-care costs, which include pension benefits and health-care benefits for retirees and their dependents, make up $26 of the total labor cost of $65.90 per hour for United Auto Workers employees at General Motors Corp., Ford Motor Co., DaimlerChrysler AG's Chrysler Group, Visteon Corp. and Delphi Corp. A chart in this article failed to note that pension benefits and retiree health-care benefits were included in the amount.

URL for this article:
http://online.wsj.com/article/SB113193536560296166.html

BusinessWeek online

OCTOBER 8, 2005

NEWS ANALYSIS
By David Welch

Time and Patience Run Out at Delphi

The huge and ailing auto parts outfit's talks with the UAW and GM went almost to the wire, but couldn't avert Delphi's bankruptcy filing

The United Auto Workers couldn't give enough and General Motors (GM) was unwilling to bail out Delphi (DPH), its former parts unit, fast enough. So on Oct. 8, Chairman and CEO Robert "Steve" Miller decided to file for Chapter 11 protection. Through bankruptcy, Miller reckons, he can get what he needs from the UAW and GM to make the money-losing company profitable again.

Delphi's failure means a massive and painful overhaul, possibly for all parties. The move by Miller, who has been involved in bankruptcy filings by Bethlehem Steel, United Airlines, and auto parts maker Federal Mogul Corp., has grave consequences for Delphi's 24,000 UAW workers and another 11,000 retirees. GM also has a dual stake in Delphi's fate because the auto giant gets about $14 billion worth of parts from the supplier every year -- and also because it could be on the hook for some of Delphi's retiree obligations.

SHRUNKEN PAYCHECKS? Miller told Business Week Online in an interview just hours after the filing that he needed to move quickly. Delphi, which has $16.5 billion in assets, lost $741 million in the first six months of 2005 on $13.9 billion in revenue. That has come on top of $4.9 billion in losses in 2004.

Miller, who took the top job in June, has said repeatedly that the outfit's $65-an-hour per-worker labor costs -- about $23 an hour in wages and the rest in benefits -- weren't sustainable (see, BW, 3/14/05, **"A Wrench for Parts Suppliers"**).

He asked the union for major cuts. They included: wages reduceded to $10 to $12 an hour, less vacation time, slashed medical benefits, modified pensions to reflect lower wage rates, and elimination of the JOBS bank, which effectively pays workers at least 75% of take-home pay when laid off.

FAMILIAR ROAD. UAW President Ronald Gettelfinger was clearly upset by Delphi's filing. He called the move a "bitter pill" for workers, especially since Delphi sweetened severance packages for executives only the day before the filing. "The UAW is committed to doing everything we possibly can to protect the interests of our active and retired members and their families," Gettelfinger said in a statement. "Unfortunately, this is not the first time that the UAW has had to deal with a court-ordered corporate restructuring, and we will vigorously use our experience, expertise, and resources to represent the interests of UAW-Delphi workers and retirees throughout this process."

Miller said that despite constructive talks that ran as late as Oct. 7, the UAW, GM, and Delphi could not come up with a deal. With new bankruptcy laws taking effect Oct. 17, Miller didn't want to wait any longer. "Between the three of us, we didn't find satisfactory common ground," he said.

For UAW leaders, their worst nightmare has come to pass. Ford (F) bailed-out its former parts unit, Visteon (VC) in May, 2005, by taking back 24 of its North American factories and assuming responsibility for some 17,000 union workers. But Delphi workers will almost certainly face jobs lost and reductions in pay and benefits. "Miller has clearly chosen bankruptcy over collective bargaining to restructure the company," says Harley Shaiken, a labor

economics professor at University of California-Berkeley. "Delphi is using a bankruptcy judge to begin moving in the direction of Chinese wages and benefits."

MUCH ON THE TABLE. When the dust settles, Delphi will likely look more like Visteon. Having given back the bulk of its North American operations to Ford, most of the parts maker's operations are now in Europe and Asia. Similarly, Delphi will likely emerge from bankruptcy with a smaller U.S. presence -- only its U.S. plants are covered by the bankruptcy filing -- and more operations in low-wage countries.

GM, which has lost $2.5 billion pretax in North America in the first half of this year, was unwilling to move with the speed that Miller needed if his outfit was to avoid bankruptcy. That means the UAW and Delphi will have to renegotiate compensation, benefits, and job numbers while the company is in court. Jobs will be lost and plants will close, Miller said Oct. 8, adding that "a substantial" portion of U.S. operations would be shuttered or sold.

Trouble is, most of the plants in question will have a difficult time finding buyers, says former Wall Street analyst Joseph S. Phillippi, president of AutoTrends, an auto industry research firm. Even though private equity concerns and foreign parts makers are combing the U.S. industrial base for cheap acquisitions, Delphi's unprofitable plants are among the least attractive. "Most of these businesses make products that could be made by a host of other suppliers for less money," Phillippi says. "They won't be missed."

MANY QUESTIONS. For GM, the bankruptcy filing means the auto maker could be on the hook for up to $11 billion in retiree obligations if Delphi stops paying those benefits. GM believes the actual obligation may end up being less than that. As part of the 1999 spin-off agreement with the UAW, GM agreed to cover UAW pension and health-care benefits if Delphi suspended its retiree-benefit plans.

Under the terms of the deal, the U.S. Pension Benefit Guarantee Corp. will pay for some of the pension benefits. GM would assume the rest and also cover health-care obligations. While Delphi is obligated to pay back GM, the auto maker would be classified as an unsecured creditor. GM's potential liabilities remain unclear, as does the sum it might recoup.

Miller says Delphi will continue to pay benefits until a deal is worked out with the union. If no bargain can be struck, Delphi can ask the bankruptcy court to reject the union agreement, meaning Delphi could pay workers whatever it chooses -- though the risk of a strike looms large if the union refuses to accept new terms. "We each have ways we can harm each other if we so choose," Miller says, adding. "In almost every case, you end up with a settlement."

What about GM's parts? Miller has said in the past that he needs GM to pay more for some parts or a bankruptcy judge could nullify the contracts. For now, however, Miller says he will keep all plants running.

NO MORE DELIVERIES? While GM said in a statement that production at its plants could be interrupted, it also indicated that it has no interest in paying more for parts. In the statement, GM said it pays around $2 billion more for its parts than would be the case if it shopped for them on the open market.

In the meantime, Miller plans to come up with a five-year package aimed at making Delphi competitive while continuing to supply GM. If Delphi and GM can't reach an agreement, Delphi could eventually stop supplying parts. But Miller emphasized strongly that cutting off GM is not his intention.

Union leaders say members are unhappy with the current state of affairs. They expected the UAW would give health-care concessions to GM, something the auto maker badly needs. In exchange, the UAW wanted GM to help bail out Delphi by taking back some workers and helping to fund buyouts for others.

Now that union workers are unsure of their fate, some say there might be wildcat strikes at select Delphi plants that could shut down GM's factories. "We get our direction from [UAW headquarters]," says Skip Dziedzic, president of UAW Local 1868 in Milwaukee. "But the sentiment is, as long as GM feels no obligation towards us, maybe some workers will feel no obligation toward them."

READY TO RUMBLE. The lack of a deal also casts a cloud over GM's ability to get health-care concessions from the union. GM pays $1,500 per vehicle in health-care costs that competing Japanese carmakers don't have to shoulder. GM wants the union to accept a cheaper health-care plan to cut that burden.

But without a deal to aid Delphi, the UAW may be less inclined to help GM, analysts say. GM has hinted that it could challenge in court the validity of its health-care obligations to UAW retirees if the union does not cut a deal. Says Sanford C. Bernstein analyst Brian Johnson: "Getting concessions outside of a court fight may be impossible."

Miller says Delphi, GM, and the union will continue negotiating in an effort to strike a peaceable deal. If they can't come up with one, all three parties could be in for a nasty brawl. The worst may be yet to come.

READER COMMENTS

Most recent comments

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Leave your own comments

Nickname: detroit engineer
Review: I'm an automotive engineer at Detroit, and if you have first-hand experience dealing with the UAW workers, you know how things really are. Hard working union workers? That's somewhat an oxymoron. I see the workers with no special skill getting paid $100,000 per year with overtime, better benefits than engineers. We get two-weeks paycheck if we get laid off. They get 95% of pay up to a year. We pay 27% of health care. They pay 7%. They stopped putting prototype parts in the middle of work because it's lunch time, while engineers stand helplessly waiting for them, skipping lunch. We can't even carry small test parts in plants. Otherwise, we get kicked out for "trying to take away the union jobs." We have to write a work-order to have it carried by union workers. Exaggerated? Talk to people in the automotive field. You will find plenty with experiences like these. The Delphi situation, hopefully, will put some urgency in these people's mind.
Date reviewed: Oct 30, 2005 12:12 AM

Nickname: DELPHI EMPLOYEE
Review: My son got a 3/4 to 1 inch cut on his finger. He went to the hospital emergency room. They charged $656 for the room, $153 for the doctor to examine his finger, and another $253 to glue the cut. So what are we talking here, $1,000 plus dollars for a cut on the finger. It's robbery without the gun. Also why do we pay more for prescriptions in this country? Could it be because drug companies spend in excess of $20 billion a year promoting their drugs. I want to change gears here a bit. What about GM spending $2 billion to buy into Fiat and then spending $2 billion more to get out. What about GM spending $1.7 billion for Fuji Heavy Industries (Subaru). It's now in the process of selling it for about $700 million. That's a $5 billion total loss by my math, but they can't help out Delphi. And let's not forget Delphi's creative accounting, yet Battenburg walztes out with how many millions? These so-called leaders get millions and the hourly worker gets the blame. How apropos.
Date reviewed: Oct 12, 2005 6:58 AM

Nickname: due diligence
Review: The American taxpayer will eventually revolt against these corporate robber barons for using bankruptcy to

Welch is *BusinessWeek*'s Detroit bureau chief
Edited by Phil Mintz

Press Releases

Delphi Intensifies Action to Improve Competitiveness

Third quarter earnings in line with guidance

Release Date: October 16, 2003

Download the press release, including financial highlights as a PDF here.

TROY, Mich. -- Delphi Corp. (NYSE: DPH) today reported a GAAP net loss of $353 million for Q3 2003 on sales of $6.6 billion. These results include a $356 million after-tax restructuring charge related to employee and product line costs. Excluding the charge, the company reported net income of $3 million during the quarter, in line with guidance and First Call consensus.

"Our value drivers, as we've consistently noted, are diversified business growth through technology-rich, game changing products and the transformation of our legacy cost structure," said J.T. Battenberg III, Delphi's chairman, chief executive officer and president. "We've made steady progress on diversifying our customer base and, in Q3, our non-GM revenues exceeded 40 percent of total sales. We've also made great improvements to our cost structure through the application of our lean enterprise skills. Now that our negotiations with the UAW are behind us, we've reached a key point where we can intensify our efforts to reduce our legacy costs."

"Because negotiations have concluded and in light of our employee demographics, we anticipate a high rate of normal retirements and significant opportunities for employees to return to GM, or 'flowback,' in the near term," Battenberg said. "In addition, we've notified the UAW of our intent to raise the issue of consolidating certain under-performing facilities. We've also taken actions to ensure our salaried and non-U.S. workforce is in line with business requirements. These swift, decisive actions require an investment that affects our GAAP earnings for the quarter. However, while we still have a good deal of work ahead of us, the steps we've taken to enhance our value drivers will yield immediate and long-term value for Delphi's shareholders."

2003 Q3 Financial Highlights

- Non-GM business increased to more than 40 percent of Q3 revenues, compared to year-ago levels of 37 percent. Non-GM revenue for the quarter was $2.6 billion, up 11.3 percent from $2.4 billion in Q3 2002.
- GM North American content per vehicle was $2,746 for the quarter, above the $2,675 level previously forecast for the year, reflecting stronger truck sales.
- Revenue of $6.6 billion, up 1.8 percent from $6.4 billion in Q3 2002. Excluding the effects of foreign exchange, revenue would have remained stable year-over-year at $6.4 billion.
- Net income, excluding restructuring charges, of $3 million or $0.01 per share, compared to Q3 2002 net income of $54 million or $0.10 per share.
- Operating cash flow was $177 million excluding the impact of the charge.(1)

"This quarter posed some unique challenges," noted Alan Dawes, Delphi's vice chairman and chief financial officer. "Although U.S. auto sales were strong, a significant portion of those sales came from existing inventory which, for the Big 3 U.S. automakers, declined by 379,000 units over the past three months. Consequently, the global vehicle production environment remained soft throughout Q3."

UAW Contract Update
During the quarter, Delphi concluded negotiations with the International Union, United Automobile, Aerospace, and Agricultural Implement Workers of America (UAW).

"Because of the hyper-competitive industry we're in, Delphi and the UAW worked some very tough issues during negotiations," Battenberg said. "The agreement provides Delphi with a platform to take important steps to boost Delphi's competitiveness in the short term."

The contract includes the following highlights:

- Mirror agreements – This is the last agreement in which Delphi is contractually bound to mirror the UAW's agreement with GM.
- Economics – Other than a $3,000 upfront payment, the agreement provides no wage increases in year one, a 3 percent lump sum payment in year two, and 2 and 3 percent wage increases in years three and four, respectively. The contract also provides 2 percent annual pension benefit increases for eligible employees and $800 annual lump sum payments for retirees. Finally, the contract includes some important changes in prescription drug coverage and other healthcare changes.
- Flowback to General Motors – Consistent with prior agreements, this agreement provides opportunity for employees to return to GM or "flowback." "We believe there is potential for a significant number of employees to take advantage of flowback opportunities during the life of the contract, based on what we understand about GM's hiring needs," Battenberg said.
- Consolidations – "We have no explicit agreement from the UAW on closures," Battenberg noted. "That said, we have notified the union that it is our intent to raise the issue of potential consolidation of three facilities in our Automotive Holdings Group. These facilities are located in Olathe, Kansas; Tuscaloosa, Alabama; and Flint, Michigan. Delphi and the UAW will have to work together on this initiative and I am confident we can reach resolution in a manner that satisfies our shared objectives.
- Two-tier wage structure – "We are optimistic the contract provides a platform for accomplishing a two-tier wage structure," Battenberg said. "Competitive wages are critical to helping Delphi win new business and supporting our transformation, and we're continuing our dialogue with the UAW on this matter."

"I'm continually impressed with the knowledge and professionalism of the UAW leaders as well as their deepening understanding of the challenges Delphi faces," Battenberg said. "We share a common goal with the UAW – a strong, competitive, growing Delphi – and we both know we must work together to achieve it."

Q3 Restructuring Charges
Upon conclusion of negotiations with the UAW, Delphi initiated global actions designed to address under-performing operations, appropriately size the company's global salaried and hourly workforce, and strengthen its competitive position. As a result of these initiatives, Delphi expects to reduce its U.S. hourly workforce by up to 5,000 employees primarily through normal retirements and flowbacks, its U.S. salaried workforce by 500 employees and its international workforce by approximately 3,000 employees.

The restructuring charges recorded in the third quarter include costs relating to the planned downsizing of approximately 1,500 U.S. UAW hourly employees, approximately 300 IUE employees at our Packard operations, approximately 500 U.S. salaried employees and approximately 3,000 non-U.S. employees. As of September 30, approximately 150 non-U.S. employees have left. Additionally, charges were recorded in the quarter to reduce the value of certain fixed assets and inventory impacted by the plans, and for payments to retirees in connection with the UAW agreement; resulting in total charges recorded in the third quarter of $356 million (after-tax).

Delphi's plans entail further workforce reductions, including employees accepting

voluntary offers to flowback, and other structural cost initiatives. The company currently expects to incur charges of approximately $159 million after-tax related to these permanent hourly reductions and other initiatives, which will be recorded in future periods. As a result, Delphi anticipates it will incur total charges related to these initiatives of approximately $515 million through December 31, 2004.

Other Q3 2003 Activities
The following activities and achievements were also announced during the quarter:

- $2.5 billion in new commercial vehicle business – Delphi announced it secured more than $2.5 billion in future new business for commercial vehicles (CV) during the first nine months of 2003, exceeding the company's target for the entire year. Delphi has steadily increased its CV business during each of the past three years. In 2002, the company booked $1.1 billion of new CV business, up from $900 million in 2001.
- Delphi XM Roady introduction – Delphi and XM Satellite Radio (NASDAQ: XMSR), America's leading satellite radio provider, launched their newest product for the vehicle, the Delphi XM Roady, in September. The Roady is the first complete satellite radio system for the vehicle for under $120 in one simple, easy-to-install package. Since the company introduced the first satellite radios for OEM applications in 2001, Delphi has produced and shipped more than 1.2 million factory-installed and retail satellite radios for this new entertainment medium. Satellite radio is the fastest-selling new audio product in 20 years, and Delphi remains the clear market leader in satellite radio units.
- New sensor business with the Chrysler Group – Delphi received two new contracts to supply crankshaft sensors to the Chrysler Group for four-cylinder, six-cylinder and eight-cylinder Chrysler, Jeep® and Dodge engines. These contracts make Delphi a major supplier of crankshaft sensors to the Chrysler Group.
- New battery, switch, and electrical/electronic distribution system business with Renault – Delphi won multi-year contracts through 2006 valued at more than $335 million with Renault, supplying Delphi Freedom® batteries, steering column modules, switches and electrical/electronic distribution (E/ED) systems. The contracts make Delphi one of the major battery and E/EDS suppliers to Renault, supporting Renault in both Europe and South America. By the end of 2004, more than 900,000 vehicles manufactured by Renault globally will be started by a Delphi Freedom battery.
- Comfort and convenience technologies for Chrysler Pacifica – Delphi announced it is providing heating, ventilation and air conditioning (HVAC) controls, power liftgate technology, modular door switches, and fuel modules for the all-new Chrysler Pacifica sports touring vehicle. As optional equipment, Delphi is also delivering satellite digital audio radio receivers for SIRIUS satellite radio service.
- Delphi selected by the Dow Jones Sustainability Index (DJSI) – Delphi has been selected to be included as an index component of the DJSI World Indexes, with top ratings in several key areas related to the index's economic, environmental and social dimensions. Delphi's scores on corporate governance, investor relations and strategic planning matched or were close to the best scores in the industry, and the company's performance on environmental policy and stakeholder engagement also was strong.

Q4 2003 Outlook
For the fourth quarter, Delphi expects revenue to be in the $6.8 to $7.1 billion range reflecting current production schedules. Earnings, excluding restructuring-related activities in the quarter, are expected to be consistent with consensus estimates of $126 million to the extent that revenue approaches the consensus level of $7.02 billion. Restructuring-related expenses, primarily people placement costs, to be incurred in the quarter are estimated at $40 million after-tax. Operating cash flow is expected to be $0.5 billion for the quarter. (2)

Additional Information
Additional information concerning Delphi's Q3 2003 results and Q4 outlook is available through the Investor Relations page of Delphi's web site at www.delphi.com, and in

Delphi's third quarter Form 10-Q, scheduled to be filed with the Securities and Exchange Commission later today. A briefing concerning third quarter results for news media representatives, institutional investors and security analysts will be held at 11:00 a.m. EDT today. For the general public, the briefing will be simultaneously webcast from the Investor Relations page at www.delphi.com.

About Delphi
For more information about Delphi, visit www.delphi.com.

(1) For a reconciliation to GAAP cash from operations, refer to the Delphi Investor Information website at www.delphi.com/ir/inv_facts.

(2) After approximately $250 million in capital expenditures and before up to $200 million of restructuring payments.

All statements contained or incorporated in this press release which address operating performance, events or developments that we expect or anticipate may occur in the future (including statements relating to future sales or earnings expectations, savings expected as a result of our global restructurings or other initiatives, portfolio restructuring plans, volume growth, awarded sales contracts and earnings per share expectations or statements expressing general optimism about future operating results) are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements are made on the basis of management's current views and assumptions with respect to future events. Important factors, risks and uncertainties which may cause actual results to differ from those expressed in our forward-looking statements are discussed in detail in our filings with the Securities and Exchange Commission, including our annual report on Form 10-K for the year ended December 31, 2002. In particular, the achievement of projected levels of revenue, earnings, cash flow and debt levels will depend on our ability to execute our portfolio and other global restructuring plans in a manner which satisfactorily addresses any resultant antitrust or labor issues and customer concerns, any contingent liabilities related to divestitures or integration costs associated with acquisitions, and other matters; the success of our efforts to diversify our customer base and still maintain existing GM business; the continued protection and exploitation of our intellectual property to develop new products and enter new markets; and our ability to capture expected benefits of our cost reduction initiatives so as to maintain flexibility to respond to adverse and cyclical changes in general economic conditions and in the automotive industry in each market we operate, including customer cost reduction initiatives, potential increases in warranty costs, pension contributions, healthcare costs, disruptions in the labor, commodities or transportation markets caused by terrorism or war and other changes in the political and regulatory environments where we do business. Delphi does not intend or assume any obligation to update any of these forward-looking statements.

Download the press release, including financial highlights as a PDF here.

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Press Releases

Delphi and UAW Finalize New Hire Wage and Benefit Supplement

Release Date: April 29, 2004

TROY, Mich. - Delphi Corporation (NYSE: DPH) and the International Union, United Automobile, Aerospace, and Agricultural Implement Workers of America, UAW, finalized a seven-year Supplement to the 2003 UAW-Delphi National Agreement, setting new wage and benefit levels for future hires.

"The new wage and benefit levels are an important step in improving Delphi's ability to secure current U.S. manufacturing work and more aggressively pursue new work for UAW-Delphi facilities in the United States," said J.T. Battenberg III, Delphi's Chairman, CEO and President. "The Supplement's tiered wages and benefits bring to UAW Delphi sites the approach used elsewhere in Delphi, as well as other auto supply and manufacturing companies."

The Supplement provides a $14.00 starting rate for all new hires in three wage groupings. The groupings are determined based upon the work performed, with final grow-in to end rates of $14.50, $16.50, and $18.50, respectively. With regard to benefits, a cash balance pension plan and credit balance retiree medical plan provide solid protection for employees in retirement while alleviating financial pressure on the company's balance sheet. The healthcare plan for new employees provides important benefits with cost-sharing more in line with industry competition.

"Both the UAW and the Delphi bargaining teams did a great job throughout these negotiations, facing challenging issues in a tough economic environment," Battenberg said.

"Along with our other cost-reduction activities, we are confident that we are on track to improve Delphi's competitiveness and work opportunities for UAW-Delphi facilities in the United States," Battenberg said.

For more information about Delphi, visit Delphi's Media Room at www.delphi.com/media

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Press Releases

Delphi, UAW and GM Agree on Hourly Special Attrition Plan

13,000 Employees Potentially Eligible For Proposed Special Retirements; GM to Provide Financial Support and Accept 5,000 Flowbacks

April 7th Bankruptcy Court Hearing Sought for Approval of UAW Plan and Authority for Similar Plans for IUE-CWA, USW and Other Represented Hourly Employees

Release Date: March 22, 2006

TROY, Mich. -- Delphi Corp. (DPHIQ) today announced a critical milestone in its restructuring. The company has reached agreement with the UAW and General Motors (GM) Corp. on a special hourly attrition plan, including the opportunity for UAW-represented Delphi employees to retire from GM. GM has agreed to provide substantial financial support under the proposed plan. The plan enables a more rapid transformation to a reduced labor cost structure across Delphi□s U.S. manufacturing operations. While subject to bankruptcy court approval, the plan provides financial incentives for certain types of retirements to ease the transition into retirement and permits the flow of up to 5,000 UAW-represented Delphi employees to employment with GM.

"We remain focused on the transformation of Delphi in order to emerge successfully from the Chapter 11 reorganization process and provide a strong foundation for our future," said Delphi President and Chief Operating Officer Rodney O'Neal. "An accelerated attrition plan will help enable the transformation of our U.S. manufacturing and support operations into a much more competitive cost base."

The proposed plan for eligible U.S. hourly employees includes normal and early retirements and UAW flowbacks to openings at General Motors facilities. Eligible UAW-represented Delphi employees may elect to retire from Delphi or flow to and retire from GM.

Approximately 13,000 hourly union-represented employees may be eligible to participate in the plan. Certain eligible U.S. hourly employees may be offered a lump sum payment of $35,000 to retire. 5,000 UAW-represented employees will have the opportunity to flowback to GM through the end of September 2007.

Under the proposed plan, GM has agreed to assume the financial obligations related to the lump sum payments to be made to eligible Delphi U.S. hourly employees accepting normal or voluntary retirement incentives and certain post-retirement employee benefit obligations related to Delphi employees who flow to GM under the plan.

The company said the plan is subject to a number of conditions, including approval by the U.S. Bankruptcy Court, which Delphi will seek to have heard at the April 7 omnibus hearing. A motion seeking approval of the plan and authority for similar plans for IUE-CWA, USW and other represented hourly employees will be filed with the Bankruptcy Court later today, and a report regarding the plan agreement will be filed on Form 8-K with the Securities and Exchange Commission.

Delphi will continue talks in an effort to achieve a comprehensive agreement no later than March 30, 2006. Absent agreement with all parties, Delphi will file no later than

March 31, 2006 its motion under Sections 1113 and 1114 of the U.S. Bankruptcy Code to initiate the process of seeking court authorization to reject the collective bargaining agreements and terminate hourly post-retirement health care plans and life insurance.

Delphi filed for Chapter 11 reorganization of its operations in the United States on Oct. 8, 2005 in the U.S. Bankruptcy Court of the Southern District of New York and under the jurisdiction of Judge Robert Drain.

For more information about Delphi and its operating subsidiaries, visit Delphi's media room at www.delphi.com/media.

This press release, as well as other statements made by Delphi may contain forward-looking statements within the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995, that reflect, when made, the Company□s current views with respect to current events and financial performance. Such forward-looking statements are and will be, as the case may be, subject to many risks, uncertainties and factors relating to the Company□s operations and business environment which may cause the actual results of the Company to be materially different from any future results, express or implied, by such forward-looking statements. Factors that could cause actual results to differ materially from these forward-looking statements include, but are not limited to, the following: the ability of the Company to continue as a going concern; the ability of the Company to operate pursuant to the terms of the debtor-in-possession ("DIP") facility; the Company□s ability to obtain court approval with respect to motions in the chapter 11 proceeding prosecuted by it from time to time; the ability of the Company to develop, prosecute, confirm and consummate one or more plans of reorganization with respect to the chapter 11 cases; risks associated with third parties seeking and obtaining court approval to terminate or shorten the exclusivity period for the Company to propose and confirm one or more plans of reorganization, for the appointment of a chapter 11 trustee or to convert the cases to chapter 7 cases; the ability of the Company to obtain and maintain normal terms with vendors and service providers; the Company□s ability to maintain contracts that are critical to its operations; the potential adverse impact of the chapter 11 cases on the Company□s liquidity or results of operations; the ability of the Company to fund and execute its business plan; the ability of the Company to attract, motivate and/or retain key executives and associates; and the ability of the Company to attract and retain customers. Other risk factors are listed from time to time in the Company□s United States Securities and Exchange Commission reports, including, but not limited to the Annual Report on Form 10-K for the year ended December 31, 2004 and its most recent quarterly report on Form 10-Q for the quarter ended September 30, 2005 and current reports on Form 8-K. Delphi disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events and/or otherwise.

Similarly, these and other factors, including the terms of any reorganization plan ultimately confirmed, can affect the value of the Company□s various pre-petition liabilities, common stock and/or other equity securities. Additionally, no assurance can be given as to what values, if any, will be ascribed in the bankruptcy proceedings to each of these constituencies. A plan of reorganization could result in holders of Delphi□s common stock receiving no distribution on account of their interest and cancellation of their interests. As described in the Company□s public statements in response to the request submitted to the United States Trustee for the appointment of a statutory equity committee, holders of Delphi□s common stock and other equity interests (such as options) should assume that they will not receive value as part of a plan of reorganization. In addition, under certain conditions specified in the Bankruptcy Code, a plan of reorganization may be confirmed notwithstanding its rejection by an impaired class of creditors or equity holders and notwithstanding the fact that equity holders do not receive or retain property on account of their equity interests under the plan. In light of the foregoing and as stated in its October 8, 2005 press release announcing the filing of its chapter 11 reorganization cases, the Company considers the value of the common stock to be highly speculative and cautions equity holders that the stock may ultimately be determined to have no value. Accordingly, the Company urges that appropriate caution be exercised with respect to existing and future investments in Delphi's common

stock or other equity interests or any claims relating to prepetition liabilities.

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March 23, 2006

Shrinking Giant

GM Makes Sweeping Buyout Offer

Deal With Delphi, UAW
Lets Auto Maker Slash
Unionized Work Force
Clearing Out a Generation

By JEFFREY MCCRACKEN and LEE HAWKINS JR.
March 23, 2006; Page A1

General Motors Corp. reached a landmark buyout and early-retirement program yesterday with the United Auto Workers and parts supplier Delphi Corp., marking a major step toward shrinking the unionized North American auto industry.

But for GM, it is not the end of the painful overhaul facing the company after nearly two decades of losing ground to Asian and European rivals.

Under a complex deal worked out in weeks of talks, GM agreed to finance early-retirement packages and buyouts to be offered to as many as 131,000 GM and Delphi workers -- including all 105,000 of GM's current UAW-represented employees in the U.S. The buyouts would range from $35,000 for those with the most service to $140,000 to certain others further from retirement age.

THE BUYOUT OFFER

- **GM Workers Worry About Future**[1]
- **GM's Plan: Will It Work?**[2]
- Read **the agreement**[3] released by the UAW. (Adobe Acrobat Required[4].)
- See **statements**[5] by GM, Delphi and UAW.

The buyout plan is one of the largest in U.S. corporate history. In effect, GM is offering to take off the assembly line a whole generation of workers hired in the 1960s and '70s when the company still dominated the U.S. auto industry.

But how many will sign up to leave is a big question mark. And even if many do, GM Chairman and Chief Executive Officer Rick Wagoner still faces a series of challenges that the big labor deal

Richard Wagoner Jr

won't solve. In 4 p.m. composite trading on the New York Stock Exchange, GM's stock finished up one cent, at $22.01.

On Wall Street, the ultimate worry is whether GM can succeed where some big unionized steelmakers and airlines failed and restructure outside of bankruptcy court. GM has denied any plan to use Chapter 11 bankruptcy to shed its obligations under its current U.S. union agreements. But major credit-rating agencies have dropped GM's debt ratings deep into "junk" levels and warned that without a quickly executed turnaround plan in North America, bankruptcy is a possibility. One agency, Fitch Ratings, has warned that some debtholders could get 40 cents on the dollar in a GM bankruptcy scenario.

Among the challenges still facing GM is an investigation by the Securities and Exchange Commission into GM's accounting. Just last week, the company said it still is unable to file its annual report and added $2 billion to its net loss for 2005, widening it to $10.6 billion.

Settling Points

Some rights the new deal between GM, the UAW and Delphi offers employees.

At GM and Delphi, workers...

...who have at least 30 years' service may retire and get full benefits and $35,000.

...with 27 but fewer than 30 years' service get $2,800 to $2,900 a month and must retire at 30 years.

...at five GM plants with 26 but fewer than 30 years' service get $2,750 a month and must retire at 30 years.

At GM, workers...

...with 10 or more years' service, retire and get $140,000 and vested pension but no health care.

...with under 10 years' service, retire and get $70,000 and vested pension but no health care.

At Delphi, workers...

...may take the first two retirement options above, or transfer back to GM, where they can retire or keep working for the auto maker.

GM is also struggling to find a buyer to reinvigorate its big finance unit, General Motors Acceptance Corp. A wide acceptance of the buyout, by easing concerns about GM's viability, could speed a sale of a controlling stake in the finance unit. Groups led by two private-equity firms have made bids for GMAC in the $11 billion range.

And GM faces continuing pressure to halt a steady slide in its U.S. market share (to 24.4%, most recently) and beef up its product line.

For GM, the mass buyout is another milestone in a long retreat from the days when it dominated the U.S. auto industry with nearly 50% of the U.S. market, and dominated the American economy as the nation's largest industrial corporation. For nearly four decades after World War II, GM and the UAW set the standard for American industrial workers in terms of wages, health care and pension benefits, in an often contentious partnership.

GM workers, and their counterparts at **Ford Motor** Co. and Chrysler Corp., consistently earned more than the average American factory worker during the decades between 1960 and 2002, according to a study by the Center for Automotive Research in Ann Arbor, Mich. By 2002, UAW Big Three workers earned an average hourly wage of $25.95, or 69% more than the average manufacturing wage. Health-care and pension costs in recent years have risen even faster, pushing GM's total average hourly labor cost per U.S. factory worker to $74 an hour last year, according to a Securities and Exchange Commission filing.

GM's UAW members also enjoyed unprecedented protection from layoffs, thanks to a program called the Jobs Bank that guaranteed workers nearly all of their full-time pay even if they had no work to do.

But GM's high U.S. labor costs have taken a toll on the company and the UAW as Asian and European auto makers have ramped up production at nonunion factories in the U.S. and Canada. In 1985, when nonunion auto production in the U.S. was minimal, GM had 457,000 factory workers in the U.S. Today, GM has 113,000 U.S. hourly workers. (In all, its North American auto operations employ 173,000, and world-wide its work force is 325,000.)

Some of those jobs have been lost as GM emulated the efficient "lean production" techniques of rival **Toyota Motor** Corp. But others have been lost because GM has been unable to stop losing market share in the U.S., despite volleys of new models and increasingly expensive price and financing discounts.

Employee Relations

Some recent buyouts affecting large numbers of workers.

- **June 2001:** Lucent Technologies says it will offer some 13,000 nonunion, U.S. employees early retirement incentives.
- **October 2001:** Merrill Lynch says it will offer a voluntary severance package to the majority of its 65,900 employees.
- **November 2003:** Nearly 10% of Verizon's 221,000 employees accepted an early-retirement buyout offer.
- **May 2004:** Southwest Airlines offers 33,000 of its employees cash, travel privileges and other benefits if they accept a voluntary termination package.
- **June 2005:** Safeway offers voluntary buyouts to some 5,800 clerks.
- **March 2006:** BellSouth says it will cut 1,300 management jobs through voluntary severance packages.

Source: Bureau of National Affairs Inc.

Though it's unclear how many workers will take the buyout offers, yesterday's deal is noteworthy if for no other reason than the sheer number of people eligible. GM hopes the offers will get it most of the way toward its announced goal of cutting 30,000 hourly jobs by 2008. Delphi, which has about 34,000 hourly jobs, hopes to eliminate at least 18,000 hourly workers, including 5,000 who transfer back to GM.

The buyout and early-retirement offer is complex. In one of the main provisions, GM and Delphi workers with 30 or more years on the job as of Oct. 1, 2005 -- the week before Delphi's bankruptcy filing -- will be eligible to receive $35,000 to retire and receive a full pension and retiree health care. A UAW member retiring would receive a pension of about $3,000 a month. GM estimates that 36,000 of its 105,000 U.S. UAW hourly employees are eligible under this provision.

GM and Delphi workers with at least 27 but fewer than 30 years on the job as of this July 1 can get the equivalent of an early pension, slightly smaller, that starts right away. Workers with 27 years, for instance, would receive $2,800 a month until they reach 30 years. The deal includes full retiree health care. When they reach what would be 30 years with the company, they will retire and receive a full pension. Workers at GM plants that have been closed or soon will be can retire with 26 years on the job. Those include plants in Oklahoma City, Baltimore, Lansing, Mich., Linden, N.J., and Muncie, Ind.

GM is also trying to buy out younger UAW members. Those with fewer than 10 years of service could get a one-time $70,000 buyout in return for severing all ties with the company, including health-care and other benefits. Vested pension benefits wouldn't be affected. GM employees with 10 or more years of seniority will have the option of a $140,000 buyout under the same terms.

WALL STREET JOURNAL VIDEO

• Lee Hawkins talks[6] about why GM's buyout and early-retirement program is a positive step for the company.

• CNBC looks at GM[7] and Delphi's buyout plan with the United Auto Workers that includes early-retirement offers.

The offers will go out immediately, said the UAW. Workers will have 45 days to accept and then seven more days to rescind, said a GM spokesman, who estimated that buyouts and early retirements should start before June 1.

For those currently eligible for retirement, taking the $35,000 buyout would amount to accepting the value of a new Cadillac CTS sedan in order to retire and collect pensions now, rather than work a few more years. But for younger workers, the calculus of accepting $70,000 to $140,000 to walk away from GM, and give up the rich health care and comparatively high wages is more complex.

Robert S. "Steve" Miller

Especially in the Midwest, the number of manufacturing jobs that pay as much as GM and Delphi is small and dwindling. That's in part because GM itself is putting pressure on suppliers to shift operations to lower-cost countries such as China or Mexico. If enough workers leave Delphi, the company could find itself in a position where it needs to hire new U.S. employees. But Delphi Chief Executive Robert S. "Steve" Miller has said his company's U.S. hourly wages for future workers need to drop from an average of $26 an hour, not including benefits, to about $12.50 an hour.

Another provision of yesterday's agreement provides that workers at both GM and Delphi with 10 years of service who are over 50 will be offered "mutually satisfactory retirement." They will be able to retire with their accrued pension, plus full health-care benefits until Medicare kicks in.

GM's decision in 1999 to spin off the Delphi auto-parts business was supposed to help GM cut costs and steer the money it saved to designing better cars. Delphi, with about $28 billion in annual revenue, began life as a far-flung collection of operations making parts from seats to spark plugs to radios for GM vehicles.

Delphi tried to diversify its customer base, but found it a struggle to compete, given wage rates that matched GM's levels. These were far higher than even unionized parts makers in the U.S., let alone competitors based in Mexico or China. Last year, facing mounting losses and the fallout from accounting problems, Delphi's directors brought in Mr. Miller, a veteran of complex turnarounds at Chrysler and Bethlehem Steel, to try to salvage the company. In October, he decided Delphi should seek Chapter 11 bankruptcy protection.

In blunt language rarely used in public by senior Detroit executives, Mr. Miller declared that the days when UAW members could expect to earn more than $60 an hour in wages and benefits were over. Mr. Miller has since toned down his public comments, in response to objections from both

GM and the UAW. But yesterday's deal represents a tacit recognition by the UAW that it can't hope to save the jobs that GM's market-share losses have effectively wiped out already.

At Delphi, as at GM, yesterday's deal left key questions unanswered. Among these were what the parts maker's remaining hourly workers will be paid and what they will do. The accord also didn't say which Delphi plants are to stay open or which products Delphi will continue making.

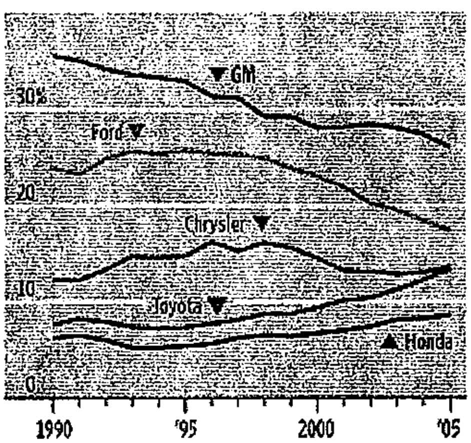
Delphi has thrice delayed a threatened move to ask the bankruptcy judge to void its existing labor contracts. Another deadline to do so looms on March 31. Delphi has said it would go ahead to void its labor contracts unless a complete deal with the UAW is reached. But the UAW and other Delphi unions have warned that such a step might provoke a strike. A strike by such a large supplier of parts to GM could quickly shut down production at the car maker, too.

Quitting Time

General Motors reached a worker-buyout agreement with its former unit Delphi Corp. and the United Auto Workers union as it seeks to stanch red ink and shore up its market share in the U.S. At right, Delphi Corp. employees leave a plant at the end of a shift in Dayton, Ohio, yesterday.

GM Faces Declining Market Share...

U.S. market share of the top five car manufacturers, since 1990:



And Higher Costs Than Rivals

2004 hourly compensation costs, including wages and benefits, for motor vehicle and auto parts workers, by major country, in U.S. dollars:

Germany	$44.05
U.S.	33.95
Canada[1]	26.12
Japan[2]	24.36
S. Korea	15.82
Mexico	3.50

2004 U.S. hourly compensation costs, including wages and benefits, for two major motor-vehicle companies:

GM	$73.73
Ford	62.93

[1] 2003 data; for Canada, motor vehicle body and trailer manufacturing are not available and not included [2] 2002 data

Sources: MotorIntelligence.com; Bureau of Labor Statistics; the companies

Though other Delphi unions weren't part of yesterday's deal, the company hopes to offer similar early-retirement plans soon to its other 9,000 eligible workers.

For GM, the buyout plan is the latest in a series of moves to cut its U.S. employment costs. The auto maker last fall negotiated a deal to curtail medical benefits for hourly retirees, and earlier this year cut retirement medical benefits for white-collar workers and effectively ended its traditional salaried pension plan.

There would also be significant accounting effects for GM from a mass retirement. The company would greatly reduce the liability it has already recorded for those employees' retirement costs, a figure that is based on assumptions about how many years they are likely to remain on the job. The

liability cut would reduce GM's pension expense, resulting in an immediate boost to the bottom line. GM's domestic pension plan, which already has a $6 billion surplus, would become even more overfunded. (For more on this, see related story[8].)

In terms of GM's credit standing, the uncertain costs of the buyout plan won't immediately jeopardize the company's rating, agencies indicated, but neither will it boost GM's ratings. "Our primary focus is on Delphi's ability to reach a contract with the UAW so as to ensure no production disruptions, and we still don't have a lot of details as to what a restructured Delphi would look like," said Mark Oline, an analyst with Fitch Ratings. "If a [possible] Delphi strike lasted for any extended period, GM's liquidity would erode fairly rapidly."

Because of that, GM has a big incentive to provide more support to Delphi. GM is apt to be very much involved as Delphi and the UAW continue their discussions over plant closures and future production.

GM's fourth-quarter results included $1.3 billion in costs related to plant closings and a $2.3 billion guarantee to UAW members employed by Delphi. Those items reduced GM's bottom line by $3.6 billion, or $6.36 a share. GM has estimated its ultimate tab for bailing out Delphi will be between $5.5 billion and $12 billion.

Standard & Poor's said $2 billion that GM received by selling most of its 20.4% stake in Suzuki Motor Corp. should help GM fund the buyout program. But S&P cited other factors, such as "mounting Delphi-related costs [and] the likely slow progress this year in turning around GM's North American operations," that it said "add to the likelihood that GM's ratings could ultimately be lowered."

Among issues still on the table is how Delphi will deal with its underfunded pension plan. A pension contribution of $1.1 billion is due in June. Both the UAW and the federal Pension Benefit Guaranty Corp. would be likely to resist any attempt by Delphi to terminate the program. To terminate it, Delphi would have to convince the bankruptcy court that it can't operate without doing so.

The Delphi portion of yesterday's agreement needs approval from the bankruptcy court. Delphi is seeking an April 7 hearing. Delphi's creditors' committee -- including bondholders, suppliers and other parties -- has already signaled a willingness to challenge GM on some issues. The committee has a team of lawyers, accountants, investment bankers and others reviewing the terms of GM's 1999 spinoff of Delphi, to see if Delphi was doomed to fail by labor obligations and other agreements imposed by GM.

A GM spokeswoman, Toni Simonetti, said GM was "not in a position" to discuss the total financial impact of the deal on GM now. Whatever its final cost for the buyouts, it will be money the car company can't spend on much-needed new products or features such as gasoline-electric hybrid engines.

One reason large-scale buyout offers are tricky is that employers can't control how many, or which, employees apply. Management experts say the offers tend to attract the most capable employees,

those who can most easily find jobs elsewhere. "You create incentives for the wrong people to leave," said Peter Capelli, a management professor at the Wharton School at the University of Pennsylvania. "The lowest performers are generally not the ones who take it up."

This may be less of a concern with assembly-line workers such as GM's than with salaried people. In any case, a buyout is GM's main option for getting its payroll costs down. If it laid off hourly workers, it would still be required, under labor contracts, to pay most of their wages and benefits.

---- Ellen E. Schultz and Scott Thurm contributed to this article

UAW NEWS

Friday, March 31, 2006

UAW Statement on Delphi Filing 1113/1114 Motions

DETROIT – UAW President Ron Gettelfinger and Vice President Richard Shoemaker today issued this statement on Delphi's announcement that it will file Section 1113 and Section 1114 motions today with the U.S. bankruptcy court in New York.

"Delphi's misuse of the bankruptcy procedure to circumvent the collective bargaining process and slash jobs and wages and drastically reduce health care, retirement and other hard-won benefits or eliminate them altogether is a travesty and a concern for every American.

"Delphi's proposal goes far beyond cutting wages and benefits for active and retired workers. Delphi's outrageous proposal would slash the company's UAW-represented hourly workforce by approximately 75 percent, devastating Delphi workers, their families and their communities.

"Delphi's filing Section 1113 and Section 1114 motions with the U.S. bankruptcy court – like the quality of the proposals it has made to the UAW – is another indication that Delphi has never been serious about finding a solution to its current problems through the collective bargaining process.

"The changes touted in Delphi's most recent proposal are entirely contingent on GM's financial support, but GM has advised us and stated publicly that it has not agreed to provide that funding. In other words, Delphi's latest proposal is basically a reiteration of its previous proposal.

"Last week, after many long, hard days and nights of negotiations, the UAW, GM and Delphi reached agreement on a Special Attrition Program that will reduce Delphi's costs. That agreement, which was reached without an arbitrary, self-imposed deadline, created momentum that could have allowed the UAW, GM and Delphi to make progress in discussions focusing on other areas.

"Unfortunately, Delphi's filing of its 1113/1114 motions kills that momentum. Indeed, today it appears there is no basis for continuing discussions.

"In the event the court rejects the UAW-Delphi contract and Delphi imposes the terms of its last proposal, it appears that it will be impossible to avoid a long strike.

"The UAW has worked diligently in good faith to resolve the Delphi situation through collective bargaining instead of through a lawyer-driven court process or confrontation. Regrettably, Delphi has chosen another path."

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February 18, 2006

Delphi Delays Effort to Cancel Union Contracts

By JEFFREY MCCRACKEN
February 18, 2006; Page A4

Auto supplier Delphi Corp. said Friday that it will delay for the third time asking the bankruptcy court to void its contracts with six unions. The company set a new deadline of March 31 to complete complicated talks with those unions and former parent company **General Motors** Corp.

Delphi, which filed for bankruptcy protection in October, was scheduled Friday to ask the bankruptcy court to cancel its contracts with the United Auto Workers union and others. Delphi also could have asked the court to cancel certain business contracts with customers such as GM, which buys about $14 billion a year in parts from Delphi.

Delphi also was expected to lay out a restructuring plan for its U.S. operations, showing which lines of business it would keep and which it would exit from.

By delaying the filings until March 31, Delphi gives the UAW and GM more maneuvering room to craft a settlement. It also avoids a confrontation that UAW leaders have warned could result in a strike at Delphi, crippling operations at GM just as the No. 1 auto maker is launching new vehicles critical to its effort to reverse last year's $8.6 billion net loss.

Delphi would likely ask the court to order GM to pay more for Delphi's products. GM, however, has said it pays $2 billion more for Delphi parts than it would were it to buy those parts from other suppliers.

Delphi Chairman and Chief Executive Officer Robert "Steve" Miller said discussions among the parties to date have been helpful but "major obstacles" remain. The new deadline, he said, should give the parties enough time to deal with the "complexities" of "practical and workable solutions and an effective agreement that works for all of us."

Delphi, the country's largest auto supplier, with annual sales of about $28 billion, wants to get new labor deals and business contracts in effect before June 30, according to people familiar with the company's plans.

If Delphi had filed a motion to void its U.S. labor contracts, it would have begun a process that would likely take at least two months. Bankruptcy Judge Robert Drain would first hear arguments from Delphi and then the unions before making a final decision.

But officials on all sides fear that by filing even a preliminary motion, Delphi might prompt scattered strikes at certain plants, with a ripple effect on GM. GM, which buys nearly a quarter of its parts from Delphi, could lose as much as $8 billion in the first 60 days of a Delphi strike, Merrill Lynch analyst John Murphy told investors in a recent report.

GM, Delphi and the UAW are discussing several solutions, among them GM-funded buyouts for Delphi workers or GM-funded buyouts of GM workers that would open up spots within GM for Delphi workers.

Delphi CEO Miller has said his U.S. hourly workers earn approximately $65 an hour in wages and benefits, which he says isn't competitive with other union and nonunion suppliers. Delphi has asked the UAW to cut workers' pay and benefits by as much as 60%, a request the union has rejected.

UAW President Ron Gettelfinger and UAW Vice President Richard Shoemaker praised Delphi's action, but said significant issues remain.

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MAY 9, 2005

COVER STORY

Why GM's Plan Won't Work

...and the ugly road ahead

Slide Show >>

If General Motors Corp. (GM) were any other company, its problems would have sorted themselves out a long time ago. Logic says that when your cash holdings exceed your entire valuation in the stock market, some Wall Street shark is going to swoop in, snap up the good parts, and toss the rest. Companies with bloated factories and workforces got religion the hard way 20 years ago, in the days of "Neutron Jack" Welch. And with today's more active boards, CEOs who consistently lose ground to the competition usually don't need Donald Trump to tell them they're fired.

But GM, of course, is no ordinary company. With sales of $193 billion, it stands as an icon of fading American industrial might. Size and symbolism dictate that its fate has sweeping implications. After all, GM's payroll pumps $8.7 billion a year into its assembly workers' pockets. Directly or indirectly, it supports nearly 900,000 jobs -- everyone from auto-parts workers to advertising writers, car salespeople, and office-supply vendors. When GM shut down for 54 days during a 1998 labor action, it knocked a full percentage point off the U.S. economic growth rate that quarter. So what's bad for General Motors is still, undeniably, bad for America.

And make no mistake, GM is in a horrible bind. That $1.1 billion loss in the first quarter doesn't begin to tell the whole story. The carmaker is saddled with a $1,600-per-vehicle handicap in so-called legacy costs, mostly retiree health and pension benefits. Any day now, GM is likely to get slapped with a junk-bond rating. GM has lost a breathtaking 74% of its market value -- some $43 billion -- since spring of 2000, giving it a valuation of $15 billion. What really scares investors is that GM keeps losing ground in its core business of selling cars. Underinvestment has left it struggling to catch up in technology and design. Sales fell 5.2% on GM's home turf last quarter as Toyota Motor Corp. (TM), Nissan Motor Co. (NSANY), and other more nimble competitors ate GM's lunch. Last month, CEO G. Richard "Rick" Wagoner Jr. and his team gave up even guessing where they'll stand financially at the end of this year.

Worst of all, GM reached a watershed in its four-decade decline in market share. After losing two percentage points of share over the past year to log in at 25.6%, GM has reached the point at which it actually consumes more cash than it brings in making cars, for the first time since the early '90s. GM, once the world's premier auto maker, is now cash-flow-negative. That's a game changer. Without growth, GM's strategy of simply trying to keep its factories humming and squeaking by until its legacy costs start to diminish is no longer tenable. If market share continues to slip, its losses will rapidly balloon.

Normally a company in such straits contracts until it reaches equilibrium. But for GM, shrinkage is not much of an option. Because of its union agreements, the auto maker can't close plants or lay off workers without paying a stiff penalty, no matter how far its sales or profits fall. It must run plants at 80% capacity, minimum, whether they make money or not. Even if it halts its assembly lines, GM must pay laid-off workers and foot their extraordinarily generous health-care and pension costs. Unless GM scores major givebacks from the union, those costs are fixed, at least

until the next round of contract talks in two years. The plan has been to run out the clock until actuarial tables tilt in GM's favor (a nice way of saying that older retirees eventually will die off). But with decreasing sales and a smaller slice of the market, that plan backfires -- leaving GM open to an array of highly unattractive possibilities.

Hard Times

How bad could it get? *BusinessWeek*'s analysis is that within five years GM must become a much smaller company, with fewer brands, fewer models, and reduced legacy costs. It's undeniable that getting to that point will require a drastically different course from the one Wagoner has laid out so far. He is going to have to force a radical restructuring on his workers and the rest of the entrenched GM system, or have it forced on him by outsiders or a bankruptcy court. The only question is whether that reckoning comes in the next year, if models developed by Vice-Chairman Robert A. Lutz fall flat; in 2007, when the union contract comes up for negotiation; or perhaps in five years, when GM may have burned through its substantial cash cushion.

Why is it so hard for those inside GM to see the inevitable? Take a step into the Detroit mindset. No active employee was even alive in 1930, the last time a rival sold more cars in the U.S. than GM. The idea of being No. 1 is etched into the company's DNA -- which makes it all but impossible for execs to embrace a strategy of getting smaller. And union leaders have never seen a problem that couldn't be ironed out at the bargaining table. "I think GM and the American auto industry are facing a lot of competition," says United Auto Workers President Ronald Gettelfinger. "But we've always had difficult times."

Not surprisingly, GM disputes this analysis. Wagoner declined requests for an interview, but spokesman Tom Kowaleski says the company is confident it can rebuild sales momentum. "We're going to fight our way back and get more share," says Kowaleski. He also says the board is solidly behind Wagoner and that even if his plan falters, GM is prepared. "This company has a significant amount of planning in place and is looking at contingencies. Don't think that we don't have long-term plans."

Increasingly, though, the solutions will slip from GM's control. At some point the laws of physics take over and, like steelmakers and airlines, GM is at the mercy of global forces. It simply cannot compete in a global economy with the enormous burden it now carries in legacy costs. It certainly cannot meet those costs for long off a shrinking sales base and negative cash flow. And distracted by those woes, it can't begin to make the investments necessary to match the Koreans on price, the Japanese on quality, and the Europeans on performance.

Let's be clear: GM is not in danger of going bankrupt while it still has a cash hoard. It has a ton of liquidity -- $19.8 billion in cash, marketable securities, and money it can tap from a pre-funded retiree benefits fund. That doesn't count $8.3 billion available from bank lines and probably $5 billion GM could draw on from its profitable General Motors Acceptance Corp. (GM) finance subsidiary. Several analysts already expect GM might have to cancel its $1.1 billion-a-year shareholder dividend; it could also raise $10 billion to $15 billion by selling GMAC's mortgage and insurance businesses.

But all that cash just ensures that GM can continue its ways for a few extra years. Without a sharp course correction, GM is on a glide path to disaster. Things got downright embarrassing in April when Toyota Chairman Hiroshi Okuda raised the possibility of hiking prices to give GM breathing space, saying, "I'm concerned about the current situation GM is in." (Toyota subsequently backed off.) Wagoner has ratcheted up the urgency level in recent weeks, signaling to unions that he needs relief from GM's $5.6 billion in annual health-care costs and accelerating the delivery of new sport-utility vehicles and pickups by several months. And it now looks like he may bite the bullet and close at least a couple of auto plants to reduce GM's overcapacity. But he probably won't quickly enact a fundamental restructuring of GM's tired business model. And without that, he is relying on new car and truck models to stop the sales slide. That's a high-stakes bet that he probably can't win.

If he fails to turn around sales, Wagoner probably won't be around to make the tough decisions in later years. Even GM's long-suffering board will have run out of patience by then. "It's difficult for us to see, if volumes and share continue to fall, how they're going to get the significant cost cuts necessary to stabilize cash flows," says Mark A. Oline, an analyst at the Fitch Ratings service, which has GM debt at a BBB- rating, one notch above junk, with a "negative" outlook. "Having that kind of cash drain is unsustainable over the long term."

GM's remaining options involve pain for workers or investors. Here is our assessment of how the crisis might play

out:

GM'S PLAN A SOFT LANDING
Remember the old ad slogan, "This is not your father's Oldsmobile"? Well, this is no longer your father's auto industry -- but GM is still run as if it were. Fifteen years ago management struck a deal with unions that made it all but impossible to close auto plants or lay off workers without incurring massive costs. GM also agreed to cushy retiree benefits that put it at a severe disadvantage. Much of what ails GM today flows from that accounting reality and its inability to increase the business at home. The need to keep those plants running, to generate cash, and to feed a sprawling web of aging auto brands compromises car design and results in too many models that sit for years without an update. The bedrock principle upon which GM was built -- offering a car to feed every market segment -- has degraded into a series of contrived brands, most with little identity, and bland, overlapping product lines.

That explains how GM's "performance" division, Pontiac, ends up as one of four units selling essentially the same family-hauling minivan. Or how Pontiac's G6 sedan was launched this year with a basic four-speed transmission and cheap plastic interior, making it a middle-of-the-pack contender against cars like the Toyota Camry, Honda Accord, or Nissan Altima. Says Gerald C. Meyers, who ran American Motors Corp. until it was bought by Renault in 1984 and who now teaches crisis management at the University of Michigan: "Instead of deciding what they want to do, they do everything and do none of it well."

Compare that with how the most successful car companies -- Toyota, Nissan, and Honda (HMC) -- do things. They concentrate research dollars on fewer vehicles, pack them with the latest features and technologies, manufacture them in low-cost, nonunion U.S. factories, and update them relentlessly. Look at the numbers: GM execs doled out $7 billion for capital spending and research and development last year, vs. $15.3 billion for Toyota. The portion of that spent in North America gets spread over GM's 89 auto models and eight divisions, compared with Toyota's 26 nameplates in three divisions. Toyota models average sales of 80,000 units a year in the U.S., whereas GM squeezes out just 52,000 sales per model on average. And Toyota models stay on the market for an average of three years before their next redesign, compared with nearly four for GM's cars.

Decisions, Decisions
Car customers like a bargain, but they aren't stupid -- they want the best car or truck, period. Too often, GM compromises on engineering so that its models can go into selected plants to keep up production volume. Example: GM's Hummer H3 SUV, which comes out later this year. Designers wanted this new, more compact Hummer to have the wide, aggressive stance that distinguished its bigger siblings, the H1 and H2. But to make the five-passenger truck cost-effective, GM trimmed its width by about six inches. That way it could use the narrow truck platform that hosts the Chevrolet Colorado and GMC Canyon small pickups. The decision saved engineering dollars and will help max out volume at the Shreveport (La.) plant, which is struggling because the two trucks have missed volume targets. But the pickup platform can't accommodate GM's vaunted I-6 truck engine, and auto enthusiasts are already grousing that the H3 may turn out to be underpowered.

GM's Kowaleski responds that the H3 will have adequate power and increased fuel mileage. He adds that GM increased its capital spending to $8 billion this year and that the company's plan includes taking vehicle platforms, engines, and parts from around the world and using them to quickly and cheaply hit growth segments. He says: "Would you like to have as much as Toyota spends? Yeah. Do we? No. So we have to be smarter."

But clearly, GM also needs to decide what it does well, focus its resources on that, and scrap the rest. Wagoner's plan seems to be to engineer a soft landing, paring some of the company's onerous legacy costs and, most likely, closing down some plants. But he isn't oblivious to the problems. At a meeting with mid-level managers last December, Wagoner described the strategy of engineering cars to use up production capacity as a "legacy cost," says one manager who heard the presentation. He says that when Wagoner introduced GM's corporate controller to walk through the company's challenges, he added: "After this, some of you may wonder why you still work here." And Wagoner has been moving methodically on a plan to merge Pontiac, Buick and GMC showrooms. Once the 1,500 or so dealers have all three of those brands, it should be easier for him to trim redundant models and focus the brands more sharply.

But Wagoner will be hard-pressed to get enough relief on medical costs, at least before the scheduled contract negotiations in 2007. The Center for Automotive Research (CAR) in Ann Arbor, Mich., estimates that GM could save

at least $1.2 billion a year just by closing the gap in co-payments and deductibles between different kinds of employees. A single, salaried worker pays at least $100 a month toward health costs, while hourly union workers pay no premiums and only a $5 co-pay on drugs. But so far, the United Auto Workers leadership has shown no sign that it's willing to reopen a contract that still has two more years to run. When GM's Group Vice-President for labor relations Gary L. Cowger suggested synching up the union and nonunion plans, UAW Vice-President Richard Shoemaker quipped: "If GM wants to give the salaried workers the same health-care plan we have, we're happy to share."

In theory, Wagoner doesn't need the union's help to chop his bloated car brands. He just has to pay a lot of money. Plenty of outsiders have called for GM to kill at least one division, with struggling Buick and Pontiac the leading candidates. But look at how much money GM had to pay for its 2000 decision to eliminate the smaller Oldsmobile unit. It was obligated under dealer franchise agreements to buy back parts, cars, and some service department tooling. And to keep dealers happy, the company paid them $3,000 per vehicle sold in the last full year. The final bill for closing Olds came to about $1 billion. It left plants that made the cars underutilized, and cost GM market share.

Exuding Confidence

Wagoner's plan to reverse the sales slide with cool new car models makes complete sense from one perspective: The lineup needs a boost. Even with the generous rebates GM has offered from late 2001 through this winter, its U.S. market share slid 2.5 percentage points. Now that Wagoner is pulling back on incentives, the situation is deteriorating even faster. Merrill Lynch & Co. (MER) estimates that GM's overall sales slid 8% in April as compared to a year earlier. And things will only get tougher if competitors like DaimlerChrysler (DCX) follow through on talk of importing cheap, small cars from China. GM execs exude confidence about the new models they have queued up starting this year: the Pontiac Solstice sports car, the retro-styled HHR compact-utility vehicle, and, later, the all-new Chevrolet Tahoe and GMC Yukon large SUVs. Says GM Vice-Chairman and CFO John M. Devine: "We think we're coming on strong."

But this is a company that sees the cavalry coming to its rescue with each new model year. True, GM managed to pull itself back from the brink of bankruptcy in the early '90s with a strong lineup of pickups and SUVs (and a huge lift from the economy). Recently, its revival of the Cadillac franchise, through cutting-edge design and masterful marketing, has been astounding. Even critics acknowledge that GM's new models are light years ahead of those they replace. But more often, GM's bold forecasts never pan out. Executives wrongly predicted a comeback in family sedans in the '80s, '90s, and as recently as last year. Meanwhile, they took a pass on hybrid gas-electric cars and blew a chance to get a jump on the hot crossover SUV segment with the failed Pontiac Aztek.

On the Threshold

Now, Wagoner is pegging his turnaround largely to a rebound in large pickups and SUVs. That's highly problematic. GM should get some pop just from replacing its aging truck lineup, which is six years old and staggering as buyers turn to smaller SUVs and newer vehicles such as Toyota's Sequoia full-sized SUV and Ford Motor Co.'s (F) rejuvenated F-150 pickup line. GM's Kowaleski says: "Even if those markets don't grow, there is a lot of opportunity for volume and profit." But first-quarter sales of full-size SUVs nosedived 21.5% from a year earlier, according to Autodata Inc., thanks to rising gas prices and competition from crossovers, such as the Honda Pilot, which carry almost as many people while using less gas. GM, with 48% of the big SUV market, is highly exposed to a downturn, according to Merrill Lynch. On the other hand, it has a paltry 19% share of the crossover SUV segment, which now accounts for nearly half of all SUVs sold.

If Wagoner can't find some way to spark a sales rebound, look out below. GM's financial situation is linked so closely to how many cars it pumps out that its cash drain worsens dramatically with each lost point of market share. In a March report, Merrill Lynch estimated that with a 24% share and the current annual U.S. auto sales rate of 16.9 million vehicles, GM would bleed $2.4 billion in cash per year. If share plummeted to 20%, the cash burn would be $4.5 billion a year. Merrill analyst John A. Casesa estimates GM can last five years before it hits a liquidity crisis. "We believe that 25% market share is the threshold," Casesa says. "If GM falls below that, things get ugly fast."

But that assumes overall U.S. car sales remain at their current high level. If rising interest rates, high gas prices, or other factors hammer the economy, the picture darkens further. At 15.4 million vehicles and a market share of 24%, GM would burn through $3.6 billion of cash annually, says Merrill; a 20% share would leak a catastrophic $5.7 billion. "The next blow comes if there is a recession," says longtime industry analyst Maryann N. Keller. "We just got

through an [economic] expansion, and the balance sheet is in worse shape than it was before."

LABOR DAY OF RECKONING
It was no coincidence that when GM executives pulled their financial guidance for the rest of this year, they pointed to the uncertainty of getting relief from the company's unions. Wagoner has to decide whether he's willing to settle for halfway measures that will only delay an inevitable confrontation when the UAW contract expires in two years, or if he's willing to risk a labor war to get big savings sooner.

GM doesn't need to open the UAW contract to send workers off into retirement and close some plants. Its factory workers have an average age of 51, so many are close to the 30-year service point that qualifies for retirement. And union leaders might go along with a buyout program. The master UAW agreement says GM has to replace some of the retirees with new workers. But the union has long looked the other way as GM slashed jobs through retirement while hiring almost no new assemblers.

Industry observers believe Wagoner is laying the groundwork to close a couple of factories and send thousands of workers off to early retirement. That might help, but it still only gets Wagoner about halfway to where GM needs to be. If he targets four of his 20 assembly plants, the company would be running fairly lean. David E. Cole, executive director of CAR, says GM could easily trim production by 1 million cars, or 20% of its capacity, and still have enough to serve the market. GM could save $2 billion per year in the long run by buying out 20,000 workers, estimates Sanford C. Bernstein & Co. analyst Brian A. Johnson. But it would pay $1.5 billion in severance costs to do so.

That would allow GM to build fewer vehicles more efficiently, cut incentives, and pull back on low-priced sales to rental fleets. Plus, the company's remaining factories would be more productive and probably more profitable. "That would hit really bad this year," Cole says. "But it would yield returns." There are several candidates for plant closings: GM has two factories making its Chevrolet TrailBlazer, GMC Envoy, and Buick Rainier midsize SUVs; it could probably get away with one. Its next-generation minivans will likely be built at a plant in Lansing, Mich., which puts the current van plant in Doraville, Ga., on the hot seat. GM is already rumored to be considering the closure of one of its full-size pickup or SUV plants, such as one in Janesville, Wis., or Pontiac, Mich.

Coming Confrontation?
Wagoner appears even less likely to start a fight to completely rewrite the union's health-care plan. The union's opposition could soften if GM's fortunes slip dramatically in the next year. But the UAW has almost never agreed to a huge giveback in the middle of a contract. (It did so in 1980, when the federal government demanded concessions as part of its Chrysler bailout, and again for Ford and GM in 1981, when spiking gas prices and a recession slammed sales.) Says Sean P. McAlinden, economist at CAR: "Why would union workers on the verge of retirement agree to cut retirement benefits?" GM's Kowaleski responds that there may be ways to get what GM wants while giving the union something in return: "Do not underestimate the breadth of scheming that can go on to come up with a win-win for everybody."

There might be loopholes Wagoner could exploit. Read one way, the labor contract does not guarantee benefits to retirees -- who account for two-thirds of GM's health-care costs -- and only covers active workers, says Sanford C. Bernstein's Johnson. But one GM insider says that interpreting the contract that way would spark a "nuclear war." The UAW could find any number of ways to strike key supply factories and gum up the company. Wagoner knows that firsthand. While president of GM North America in 1998, he played hardball with the UAW over a dispute involving two union locals in Flint, Mich. Those workers, who made parts needed by every GM assembly plant, struck for 54 days over what they said were local issues. That shut down the entire company, costing it $2 billion and nine percentage points of market share, though GM recovered all but a point of that by yearend.

Labor experts believe Wagoner is raising a hue and cry now to position the company for bigger concessions when contract talks open. "If you want to get the union to cut medical benefits in September, 2007, you don't start in August. You start now," says Harley Shaiken, a labor professor at the University of California at Berkeley. But if the sales picture deteriorates over the next year, GM probably will have little choice but to force a confrontation sooner and radically reshape its cost structure.

THE ENDGAME: A SMALLER GM
Will Wagoner be around to make that choice? By approving his plan and his takeover of the troubled North

American business, the GM board has signaled that it is being patient – too patient, some analysts think. All indications are that Wagoner will be given a couple of years to get traction for his strategy. But if the cash burn rate accelerates and GM's stock deteriorates further, outside forces will pressure the board to take action, or will seize the wheel themselves. "If the board feels they're on the right path, they won't make a change that disrupts that," says CAR's Cole, who has close ties to GM's brass. "But in two to three years, if there is not an improvement on the revenue side, it's over for these guys."

Private-equity investors seem to believe that the company's global cost handicap will eventually force it into bankruptcy court to shed union and dealer obligations. Wall Street bankers already are salivating over the opportunity to pick off GM's profitable mortgage operations. But the auto business is a whole other animal. For now, the legacy costs are too onerous and the politics of chopping so many jobs just too dicey for it to be worth the trouble of a takeover. Says one senior banker: "The joke used to be that all of the airlines would have to go through a car wash...now the car companies are going to have to go through the car wash. That's the challenge for anyone looking at these businesses and saying, Look, how do you deal with starting at a $2,000-a-car disadvantage vs. the rest of the world?"

Just mention the word "bankruptcy" to any of GM's top executives and the mood gets frosty fast. "That's definitely not the plan," Wagoner said in a January interview. No wonder: Bankruptcy would almost certainly follow a catastrophic failure in the marketplace, or a play by a private-equity investor seeking to break up the company. In either case, management would be out on its ear.

GM's cash hoard makes a court filing unlikely – at least for now. If it happened, though, a GM bankruptcy would boggle the mind. The auto maker would bring to a judge four times the assets of the largest case filed so far, by WorldCom Inc. in 2002. Its 324,000 worldwide employees are about 70,000 more than Kmart Corp. (SHLD) had before it filed that same year. GM could almost certainly find a judge who would allow it to dump many of its most burdensome obligations, says Lynn M. LoPucki, a law professor at UCLA. GM's pension plans are fully funded for now, but if GM's finances worsen or its pension investments sink in the coming years they might still be dumped on the federal Pension Benefit Guaranty Corp. GM also could shed its union contracts, firing anyone who didn't want to take lower wages or benefits. Ending health-care obligations to retirees alone could save $4 billion to $5 billion a year.

Imagine the uproar, though, if that happened. Even if GM could demonstrate to a judge that it had negotiated for the cuts in good faith, the UAW would certainly respond with a strike. That would burn up in a few months much of the cash that any raider coveted. And pensioners could still sue for their benefits. "If there was value, you wouldn't get away scot-free," notes Wilbur L. Ross Jr., who has taken interests in bankrupt steel, textile, and coal companies.

Bite the Bullet

Breakup or bankruptcy are the ghosts of GM's future. They become much more substantial threats if current management can't deliver on its promised turnaround over the next couple of years – or if the board doesn't find someone who has a better idea of how to deploy GM's $468 billion in assets.

It was a former General Motors chief – the legendary Alfred P. Sloan Jr. – who foresaw the problems that are now tying his company in knots. "Any rigidity by an automobile manufacturer, no matter how large or how well established, is severely penalized in the market," Sloan wrote in his 1965 memoir, *My Years With General Motors*. Of course, Sloan was talking about a competitor, Henry Ford, and his refusal in the 1920s to change his business model to build different cars to suit the changing tastes of American consumers. But Sloan's indictment stands just as well for today's GM.

What would a healthy GM look like? It might have five fewer assembly plants, building around 4 million vehicles a year in North America instead of 5.1 million. That would slash U.S. market share to around 20%, but factories would hum with real demand, stoked less by rebate giveaways and cheapo rental-car sales. Workers would have a cost-competitive health-care plan but would fall back on government unemployment benefits when hard times demanded layoffs. Profitable auto sales and finance operations would fuel a richer research budget, tightly focused on four or five divisions instead of eight.

This new GM might make two-thirds as many models: Chevrolet, perhaps its most recognized global brand,

handling trucks and mass-market cars; Saturn, behind its cool new Euro styling, selling more expensive cars with design flair. A resurgent Cadillac would parade advanced technology and luxury. Hummer would only last as long as brawny SUVs are hip. GMC, which is very profitable these days, would stick around if Chevy couldn't satisfy America's yen for trucks. Pontiac, Buick, and Saab would follow Oldsmobile to the scrap heap.

Maybe Wagoner will decide to bite the bullet and spend the billions needed to launch such a dramatic overhaul now, rather than waiting. And maybe the UAW leadership will get religion and offer more than token help. Where they decide to take GM will matter a great deal to the army of auto workers toiling away in its factories, the vast web of businesses that feed off of them, and legions of investors. As we learned a long time ago from outfits like AT&T, no company is too big to fail, or at least shrink dramatically. Not even mighty GM.

Corrections and Clarifications

"Why GM's plan won't work" (Cover Story, May 9) should have said that General Motors Corp. spent $13.7 billion on capital projects and research and development in 2004, not $7 billion. That compares with $15.3 billion for Toyota Motor Corp.

By David Welch and Dan Beucke, with Kathleen Kerwin in Detroit, Michael Arndt in Chicago, Brian Hindo, Emily Thornton, and David Kiley in New York, Ian Rowley in Tokyo, and bureau reports